

# AMERICAN BANKERS ASSOCIATION JOURNAL

## The Handwriting Is on the Wall for Country Banks

By GEORGE WOODRUFF

Vice-Chairman, National Bank of the Republic, Chicago

**New Economic Position of United States Will Ultimately Affect Business in Every Part of the Nation. Small Country Banker Must Develop Banking Services That Will Meet the Changing Needs of His Own Community. Parallel in Merchandising.**

**J.** PIERPONT MORGAN, the first of our great international bankers, died on March 31, 1913. Two years later to a day, March 31, 1915, Nathan M. (Baron) Rothschild passed away in London.

I am recalling the deaths of these two men merely to show the tremendous changes that have occurred in a little over a decade. During their lifetimes both of these men—Morgan in America and Rothschild in Great Britain—had enjoyed the reputation of being farsighted financiers. Both had been credited, and justly so, with possessing remarkable vision. Both had what might be termed a world viewpoint.

Yet if Morgan, in 1913, or Rothschild, in 1915, had prophesied that the balance of power, financially speaking, would shortly be transferred from England to America even their staunchest admirers would have regarded such a forecast as a sign of senility. This in spite of the fact that, in the case of Rothschild, the great World War had already come to pass before his death.

### A World Re-made

**T**EN years is a short space of time. It is certainly a very brief period in which to remake a world. And yet, within that comparatively infinitesimal fraction of time, we have seen the whole complexion of world affairs completely altered.

Until the beginning of the World War, the United States had been a debtor nation. It had been borrowing annually millions of dollars from the nations of the old world.

These loans had been necessary in order that we might finance the building of our great railroad systems and the development of our natural resources. And they would have continued for many years to come had not a certain archduke of Austria been assassinated by a Servian student in the remote town of Sarajevo.

### Shot Changed Balance

**T**HAT shot not only changed the geography and politics of the world, but it also changed the financial balance of power. It made the United States, within five years, the world's banker. Nor have we yet reached the end of the story—not by any means.

Today, as a result of the world upheaval, we find America the great creditor country and instead of borrowing money from the older nations we find ourselves holding their notes to the extent of billions of dollars and obliged, from time to time, to extend them still further credit. Right at this time, for instance, the American government and the American people hold foreign obligations that total over seventeen billion dollars.

Along with this, is the almost paradoxical fact that we have, in spite of the impoverished condition of Europe, been able—so far at least—to sell and export more goods than we have imported, with the result that we have built up a favorable trade balance at a time in our economic history when Europe would ordinarily have made great efforts to reduce its obligations by selling us large quantities of goods.

The consequence is that we have become, within a very short space of time, a capital exporting country—a field in which Great Britain had been the leader for a long period prior to the World War.

The full significance of this changed condition becomes apparent when it is remembered that nearly every country in the world will be obliged to pay us money for many years to come. This they can best do (with the possible exception of Great Britain) by sending us goods and, in order to produce goods, they will be obliged, for a time at least, to borrow capital from us.

Some economists believe that Europe's necessity for increased imports, in view of her diminished resources and constantly increasing population, will grow faster than her capacity to export, in which case the trade balance will continue in our favor. Others believe that the improved economic and industrial conditions in Europe, will enable her to gradually create a trade balance in her favor, in which case her loans will be gradually reduced.

### Banks Must Study World Conditions

**W**HATEVER the outcome may be, it is certain that the debtor nations will endeavor in every way possible to sell us great quantities of goods and that we, in turn, will become heavy investors in foreign securities for otherwise it will be impossible for the nations that owe us money to liquidate their indebtedness.

From this time on the banks of America must study world conditions. They must know almost as much about business conditions in the British Empire, in Germany, in France and Czechoslovakia, for instance, as they know about business conditions in Florida or Montana or California.

There was a time when the country banker in Pleasantview, Iowa, or Spruce Center, Idaho, could content himself with understanding business conditions in the United States and leave the problems of the rest of the world to the international bankers of New York or Chicago. But that time is very rapidly passing for the reason that individual Americans are now interesting themselves in foreign securities, foreign trade and foreign problems and, if the local bank is to render the service expected of it, the cashier of the bank in Pleasantview and the cashier of the bank in Spruce Center must be ready to give their customers the information and service they desire.

Over nine thousand investors purchased the Austrian loan, with an average investment of \$2,975 and approximately 44,000 persons subscribed to the Japanese loan with an average investment of \$3,660. Of these loans over 50 per cent of the total was subscribed by persons who invested \$1,000 or less and ninety per cent of the sales were made to persons who invested \$5,000 or less.

These facts show very clearly that the individual American is beginning to think and act in terms of world finance. They show that, as a citizen of a creditor nation, he is beginning to overcome his provincialism of the past and is rapidly assuming the same attitude that was taken by the citizens of foreign countries prior to the great war.

In those days, the securities of America were eagerly bought in foreign countries—so much so that the outbreak of the World War found millions of dollars' worth of American securities thrown on the market by their foreign holders. In fact, in the pre-war days, almost any bank in Europe could have given as many details about the leading American securities as could a banker on Wall Street in New York.

Now what does all of this mean to the American banker—in particular to the bankers of the smaller cities and towns? It means that the new economic position of the United States has brought about a tremendous change in our viewpoint—a change that will ultimately affect business conditions in every part of the nation. It means that the small country banks must gradually develop banking services that will enable them to serve their customers in accordance with the changed habits of the day.

### The One Antidote for Branch Banking

THE increased complications in the banking business—complications that will result from our growing importance as a creditor nation—will also develop tendencies that we have already seen developed in countries that have not been economically isolated, as has been the United States in past years. This tendency points toward consolidations and branch banking, because—as banking services become more involved—there is a tendency to form larger units and to serve a broader territory through the establishment of branches.



### Serve!

HERE is an article which should receive the attention of every country banker because it will suggest to him how he may protect the business which he now possesses, and keep his customers from going to larger places for the banking service that they want.

Directing our attention to the fact that the financial world has changed, the author, George Woodruff, vice-chairman of the National Bank of the Republic, Chicago, gives warning to the country bankers.

American banks should combat this tendency through the development of greater cooperation among the banks themselves. It is the one successful antidote for branch banking. Competing banks should join together as partners in the further development of their communities, for only through cooperation will they be able to offer the type of banking service that will be necessary in building up the typical American community of the future.

### Small Bank Can Compete

THERE is no good reason why the smaller banks of the country cannot through close cooperation, develop services that will enable them to defeat the need for branch banking. There are many difficulties ahead that the individual bank will find it hard to meet, but if all the banks in a community "club together" they will find it a fairly easy matter to take care of the somewhat intricate banking practices that will arise as America gets more and more into the middle of the economic stream of world affairs.

The day will come—indeed it is fast approaching—when nearly every country bank will be an information bureau covering conditions throughout the world. It will have to be able to give its customers accurate information about foreign securities; it will have to be posted on business conditions in Poland, in Roumania, in the Argentine, in Australia and in China and Japan. It will have to be well informed on foreign exchange. It will have to know exactly why Kansas wheat, for example, is likely to suffer a drop in price because of the exceptionally favorable weather in Russia or Roumania. It will have to be posted as to the rubber-growing conditions in Brazil and the silk production of China and Japan.

The world is growing smaller each day.

The changed economic conditions, improved transportation facilities, the universal spread of radio—all of these things are tending to make the American of today a citizen of the world. And, if the bankers of this country are to keep pace with the evolution that is occurring, they must of necessity quit thinking and acting in terms of American isolation and gear themselves to the enlarged place that the United States holds in the economic life of the world. If they fail to do so, they will find Mrs. Brown of Pleasantview and Mr. Smith of Spruce Center turning more and more to the larger financial institutions for the assistance and service they seek.

### The Handwriting on the Wall

IN the field of merchandising it was the failure of the local merchant to supply the goods and service that his customers demanded—his failure to keep pace with the growth of the nation as a whole—that opened the door to the mail order house and the chain store systems. The local merchant did not seem to realize that Mrs. Brown was no longer content to be six months behind the styles. He did not realize that Mr. Smith was unwilling to do without the latest contrivances for his comfort and pleasure. He did not seem to sense—or at least he did not sense in time—that Mrs. Brown and Mr. Smith had begun to think and dress and act in terms of London and Paris and New York and Chicago.

The same handwriting is on the wall today in the field of banking. And the way to meet it is for the bankers in the smaller cities and towns to discontinue the practice of tending only to their own knitting and instead to learn to cooperate with each other toward the end that they may be in position to render the various types of service that our changed economic conditions will demand.

### To Press McFadden Bill

AS Congress convenes, there is every indication that the modernization of the National Bank Act will be included in the legislative enactments of the 69th session.

While tax revision undoubtedly will occupy the commanding place on the program, plans have already taken shape to have the McFadden bill, which proposes to liberalize the Federal banking laws by making eighteen amendments, brought before the House of Representatives and the Senate before final adjournment is taken. Representative Louis T. McFadden has announced that the leaders of the administration forces in the lower house have promised to give the banking bill a place on the program that will insure its early consideration.

The McFadden bill will be reintroduced in the same form as it was passed by the House of Representatives at the last session of Congress. Due to the lengthy hearings held by the Committee on Banking and Currency prior to the action of the House at the last session, Chairman McFadden has announced that it is not purposed to have any further hearings on the measure. He expresses the hope that final action will have been taken by the House before the end of January.

# Main Street Finances Wall Street

By REUBEN A. LEWIS, JR.

**Country Banks Loan \$1,700,000,000 on Call, Setting New High Record. In the Financing of Security Transactions, Interior Banks Are Furnishing Nearly Two-Thirds of the Funds. New York Banks May Introduce Charge for Placing Call Loans.**

**A** LONG string of digits has lost its dazzling power in American finance. A hundred million dollar foreign loan, a billion dollar gain in bank resources or a three million share day on the stock exchange would have been an epochal event in the not distant past. Now these notable achievements are accepted as a matter of course and the financial world rocks along as if nothing happened. The truth seems to be that America is getting a trifle blasé over breaking records.

As a rule, it is not difficult to discover what is happening in banking—for virtually every phase of its operations is reflected in periodic statements that show how a bank is using its funds. True, only the totals are given, but these indicate plainly the trend of its activity. One of the exceptions to the rule of open publicity is the matter of call loans—loans secured by stocks and bonds readily saleable on the stock exchange that may be called by a single day's notice. For this reason, the activity of banks in the call money market is little known.

Yet, within the past month, there has been a notable development; for the total amount of money loaned on call in New York has soared beyond all previous marks. It reached the three billion dollar mark.

## A Magnet That Pulls

**L**IKE a great magnet, Wall Street has attracted millions of temporarily idle dollars from banks in every section of the country. The seemingly irresistible pulling power has been the relatively high rate of interest that a booming stock market was willing to pay for the use of this money. For a number of weeks, the rate on call loans remained firm at 4½ to 5 per cent, so that the out-of-town banks poured their funds into the New York market.

The loans that the New York banks make for their customers do not appear in their statements. The volume is reported weekly to the Federal Reserve Bank of New York but is regarded as confidential, so there is no official figure to be cited to show the exact amount of money loaned on call for the correspondent banks. However it has been an open secret among the big New York banks, which have placed these loans for the thousands of interior banks, that a total of approximately \$1,700,000,000 of country bank funds was on call when the stock market was at the recent peak of activity.\* This is more than twice as high as the record figure for 1924 when the top figure was between \$800,000,000 and \$900,000,000.

These loans should not be confused with those made from the balances that the country banks keep on deposit with their New York correspondents. For while a substantial part of these balances ultimately finds its way to the call loan market, it is not a part of the \$1,700,000,000. This figure represents funds that the New York banks loaned on call at the direct instruction of the out-of-town banks.

The balances maintained by correspondents in New York will average around \$900,000,000—according to the figures compiled by the Federal Reserve Board. This money is put to a variety of uses by the big New York banks, the nature of employment being determined by varying conditions. It becomes part of the bank's general fund and is used in its general banking activities. First, the New York banks take care of their commercial depositors in granting them the credit they need; the rest is invested in short-term securities, commercial paper, bankers' acceptances or placed out on call—the distribution depending upon the best return that can be obtained. If the call money rate is high, doubtless a good portion of the bankers' balances will find its way to the money desk on the floor of the exchange, there to be loaned to the various stock exchange houses. On these balances, the country banker receives a return fixed by the Clearing House Association on a sliding scale, that is generally around 2 per cent. On the call loans placed direct, however, the interior bank gets the going rate.

## How Loans Are Placed

**T**HE placing of the loans is just one of the services that the banks render for their correspondents, but the business has attained such proportions that it is understood some consideration is being given to the inauguration of a fee for the service.

As a rule, the money that is sent to the New York banks to be loaned on call is transmitted through the Federal Reserve Banks. The general practice is for an interior bank to transmit telegraphic instructions to its city correspondent to loan a specified sum on call. Shortly afterwards, the Federal Reserve Bank notifies the bank that this amount has been placed to its credit by the transmitting institution. The New York bank then gets in touch with one of the money brokers operating on the New York Stock Exchange, who is instructed to loan this sum. After a borrower has been found, the transaction is completed and the stocks and bonds, put up

as collateral for the loan, are delivered to the lending bank.

## Advices on Loans

**T**HE New York bank then dispatches a letter to the institution that has sent the funds on to the call money market, advising it that the loan has been made and listing the securities given as collateral. Frequently, there is a substitution of the securities making up the collateral and it is necessary to notify the bank of each change. No liability is assumed by the New York bank in connection with the loan beyond giving the out-of-town bank the assurance that it will give the loan the same care and attention that it devotes to its own. In most cases, a borrower is required to put up \$125 in securities for every \$100 loaned so the element of risk is not great. However, the securities deposited are reviewed almost daily to make sure that there is sufficient security for each loan. On a rising market little supervision is needed, but when stocks go crashing down, it is another question.

At the present time, the New York banks have rendered this service without charge to their customers but, of course, they are required to maintain balances and there is this compensation. Within banking circles, there has been some discussion of charging  $\frac{1}{8}$  or  $\frac{1}{2}$  per cent for the placing and supervision of a call loan—so that if the rate is 4½ per cent, the country bank would obtain 4¾ per cent. As yet, the matter has not advanced to the stage where a definite proposal has been formally made for the consideration of the New York Clearing House Association. If a service charge were introduced, it is more than likely that the action would be taken through this medium.

## Call Loans Part in Credit Expansion

**T**HE expansion in bank credit that has taken place during the past year is due almost wholly to the loans that have gone into the financing of security transactions. This is clearly shown by the condition of member banks of the Federal Reserve System, which report weekly as to their operations. On November 11, these 723 banks in the leading cities of the country reported an increase in loans and discounts for the year of \$1,150,000,000. At the same time, they reported that the loans secured by stocks and bonds were larger by \$945,000,000. This is a representative showing, rather than a complete one, but it seems to indicate that the rapid expansion in bank

credit during the past year has been due to the sustained large operations on the security markets.

The source of the funds is not hard to discover. Time deposits have gone up \$521,000,000. Net demands deposits have risen \$53,000,000. The borrowing at the Federal Reserve Banks has increased by \$305,000,000. The last item is of particular significance in view of the recent action on the part of the Federal Reserve Banks of Boston, Cleveland and Philadelphia, in advancing the rediscount rate from 3½ to 4 per cent.

With the rediscount rates of all the Federal Reserve Banks uniform at 3½ per cent and the call money rate firm at 4½ to 5 per cent, it does not take a mathematical shark to see how the member banks had an open invitation to bundle up their eligible paper and take advantage of their rediscount privilege to make a neat profit. The banks could borrow money at 3½ per cent and loan it at 4½ and 5 per cent, thus making a profit of at least one per cent for there was no charge to cut down the net return.

While the Federal Reserve Banks do not offer any explanation for the changes they make in raising their rates, more than one spokesman had stated plainly that those charged with the responsibility of administering the system feel they should not permit the price of Federal Reserve credit to become so cheap as to encourage an unsound speculative fever. The Reserve banks, it is plainly admitted, are not clothed with the power to see that the movement of stocks is held within any fixed bounds, unless it is found that these operations are absorbing credit that is needed in general business. However, in this case, it was indicated that the Reserve Banks felt if the speculation on the stock exchange were unchecked, it might spread to commodities and thus lead to inflation.

At all events, the advance first made by the Boston Federal Reserve Bank had its effect, even if the decline in the stock market was due more to psychology than to the intrinsic importance in the change of rate.

### Country Banks Recall Funds

IT likewise had its effect on the volume of funds loaned by the country banks. With the raising of the rediscount rates, banks located within these districts sent hurried instructions to call a good proportion of their funds. While there cannot be said to be one outstanding cause for the withdrawal, the raising of a rediscount rate sometimes stimulates the demand for commercial borrowing and of course enables a bank to stiffen its loaning rates.

The recall of the country bank funds, at the outset, created a disquieting influence and an inquiry was made to find out if there were funds available from other sources to replace those that were being withdrawn.

A canvass of the New York banks developed the fact that they were in a position to take up the slack in the call money market, as they had in their portfolios a substantial proportion of paper that could be discounted readily with the Federal Reserve Bank. If the New York banks had not been in a position to take up the slack, it is quite probable that there would have been further declines in the quotations of many issues.

The banks in the nation's financial center, it was found, have not kept up with the pace of the interior banks in furnishing the funds for the financing of security transactions. The security loans of the New York banks, it was revealed, had increased only 14 per cent within the past year, from \$1,832,768,000 to \$2,091,062,000. The banks outside reporting to the Federal Reserve Board had permitted their collateral loans to increase to 26 per cent. This comparison is thought to be representative of the average bank in the interior, whether members of the reserve system or not.

As is well known, the New York banks have always provided a goodly part of the funds that the security market has needed for its operations. Yet, the proportion of all loans secured by stocks and bonds supplied by the New York banks has dropped from 41 to 39 per cent, while the percentage supplied by the outside banks has, within the year from Armistice day in 1924, risen from 59 per cent to 61 per cent of the record-breaking total. So the bulk of the funds that Wall Street uses comes from the so-called country banks.

Just how important the operations of the call money market are to all of the banks of the country may be appreciated when it is realized that roughly one-tenth of all outstanding loans, at the time that brokers' loans reached the three billion dollar mark, was represented by those made on call. For, according to the Federal Reserve Board, the total loans of the nation's chartered banks on last June 30, amounted to \$29,464,000,000.

### Another High Record

THE glamor that once surrounded the making of records in finance seems to be passing.

On November 10, the New York Stock Exchange hung up a new mark for the turnover of shares within a single trading day. In all, 3,448,747,000 shares changed hands.

Naturally this day recalls to mind that memorable last day in April in 1901 when there was an unloading of 3,281,226 shares. But what a contrast when the cause of the feverish wave of selling is made!

It took a collapse of Harriman's campaign to corner the stock of the Northern Pacific Railroad to bring about the great crash in 1901. Last month, the Federal Reserve Bank of Boston changed its rediscount rate

by a mere ½ of 1 per cent and created an avalanche of selling without precedent. The contrast illustrates just how sensitive the stock market is to any important sign of adversity for while a rise of a mere one-half per cent in the discount rate meant little in itself the move constituted at least an obvious threat to the money supply. And Wall Street well knows that the brokers could not carry on their business without the call money market.

In the final analysis, it may be seen that Main Street is financing Wall Street. While this may be a revelation to those who have only a casual conception of the country's financial structure, it is not new to the seasoned banker, who for many years has witnessed the movement of temporarily idle dollars from the interior to the financial center to earn their hire until they are needed at home.

It is true, of course, that the traffic of idle dollars rolling down the broad highways from the country to New York was never so heavy. But then again America was never so amazingly wealthy.

And this may be taken as the explanation of why call loans reached the three billion dollar mark.

### Possible Recovery of Excess Profits Taxes

By Thomas B. Paton

THE United States Board of Tax Appeals in the appeal of the Guaranty Construction Company (Docket Numbers 1828, 1848, decided October 30, 1925) held that the Commissioner of Internal Revenue has been in error in compelling a reduction of the invested capital for excess profits tax by the amount of taxes paid. If such invested capital has not been properly reduced then refunds for overpayment should be obtainable provided the statutory requirements and limitations have been complied with.

If waivers have been filed in accordance with the provisions of Section 281 (e) of the Act of 1924 as amended March 3, 1925, it is possible that refunds may be obtained.

It should be noted that the Commissioner has not as yet acquiesced in this decision, but it is advisable in order to carefully comply with the limitation of the statute, to file such claims, if permissible under the statute, in order to avoid the expiration of the statutory time limitation.

If the Commissioner should not acquiesce then refund can only be obtained by suit.

### New Gold Produced

THE Director of the Mint reports that the gold production of the United States, including its insular dependencies, for the calendar year 1924 is estimated to have been \$52,277,000, and the production of silver is estimated at 65,407,186 fine ounces.



# The Recovery of the Railroads

By CHARLES F. SPEARE

**"I Regard the 'Come Back' of the American Railroads From the Crippled and Debilitated State in Which They Were Left After Government Control As One of the Greatest Demonstrations of Uphill Fighting in the Business Life of the Country."**

**I**T might be difficult to prove the statement that the railroads of the United States are today being operated with greater efficiency than ever before, but no one can contest the fact that the service they are now giving to their clients is performed with more punctuality and with less friction than at any time in the history of American railroading.

The index of high operating efficiency of a railroad property is its transportation cost. This covers the items of labor, fuel, loss and damage claims, among others. There have been years when this ratio of expense to gross earnings has been much lower than at the present and when, due to large train loads, careful loading and close attention to the firing of engines, a few of the major systems, like Union Pacific, Great Northern, Northern Pacific and the soft coal roads, as Norfolk and Western and Chesapeake and Ohio, have been able to keep their transportation cost within 25 per cent of their entire operating revenues. But wages and fuel have risen in the past decade so much faster than the freight and passenger rate that it has been impossible to preserve those old proportions. However, we have seen the daily car miles figure to be on a steadily ascending scale, which is of greatest importance to the shipper and to the consumer of goods and eventually translates itself into more net earnings for owners of railroad stocks and bonds.

## Joint Helpfulness

**T**HIS latter condition reflects better relationships between railroads and their employees and between shippers and carriers. There can be no question as to the growth of joint helpfulness in recent years between those who operate the American railroads and those who use them. In an address to his stockholders at the recent annual meeting of the Baltimore and Ohio Railroad, Daniel Willard, president of the company said, "It can be fairly stated that the relations today between the roads and the public as a whole are better than I have known them to be during the past twenty-five years."

This period, it may be said, covers the era of great railroad prestige and successes of men like E. H. Harriman and James J. Hill. On November 10, in speaking before the Duquesne Club of Pittsburgh, W. W. Atterbury, the new head of the Pennsylvania Railroad made this statement: "Personally I am more optimistic about the railroad situation than I have been in fifteen years. Things are getting better every day. We can feel the strong supporting forces of public

opinion backing us up to an ever greater extent, and we can see much more clearly that, in the years to come, we are going to be able to give to the investors of the world attractive opportunities to invest in railroad development with the assurance of satisfactory return upon the money."

To supplement these statements, which come from heads of great trunk line systems, we have those of others who look upon the performances of the carriers in relation to their effect on banking and commerce. One, A. C. Miller, member of the Federal Reserve Board, said to the members of the Commercial Club in Boston on November 17, "One reason for the floating supply of credit in the United States today, which is the largest ever known, is the economy in the use of credit resulting from the smaller inventories required because of the improved transportation conditions and the promptness with which plant facilities in all lines of industry are able to respond to increased demands for our products."

## Keep Inventories Down

**F**URTHER testimony of the same sort is given by Charles E. Mitchell, president of the National City Bank of New York, who said in Detroit last month, "Few people realize what a blessing efficient railroad service is to industry. Instead of requiring enormous inventories to be carried the railroads make it possible for raw materials to flow in and out of factories with clocklike regularity and inventories are kept down to a point which was thought unbelievable five years ago." This was said in the shadow of those factories which are turning out thousands of new transportation units daily, most of which compete with steam carriers for the haulage of freight and passengers.

Anyone who has followed the transportation business in the past twenty years remembers the frequent traffic blockades prior to 1920 throughout the industrial sections of the East and the agricultural states of the West and South. Main tracks were filled with slow moving trains, loaded cars stood for days in yards and on side tracks and the cry of the shipper for equipment was heard all over the land and within the precincts of Congress. This congestion impinged severely on the arteries of commerce and resulted in very great losses to manufacturers and to shippers of perishable goods. In the autumn of 1923 I traveled across the Northwest, down the Pacific Coast and through the Southwest and South without finding a single traffic jam though the total car movement then was greater than

it had ever been before.

So satisfactory was the performance of the carriers last autumn that the Interstate Commerce Commission in its annual report for 1924 made this comment:

"During the week ended October 25, 1924, there were loaded 1,112,345 cars of revenue freight, thereby setting the highest mark in the history of railroading. This was accomplished without car shortage, congestion or other transportation disability. On October 22 more than 100,000 surplus freight cars were reported and, on October 1, 5,425 serviceable locomotives were stored against possible adverse weather conditions during the coming winter." A member of the Commission supplemented this with his individual opinion that "never before, anywhere in the world, under any circumstances and conditions, has transportation been so efficient as that exhibited at the present time by American railways generally."

## \$300,000,000 in Daily Transit

**T**HIS year the movement exceeds that of 1923 or 1924. It is estimated that merchandise of a value in excess of \$300,000,000 is in daily transit in the United States. In September freight traffic amounted to well over forty-one billion net ton miles, more by 393,000,000 ton miles than in September, 1920, when the previous high mark was established. Car loadings have been running over 1,000,000 cars weekly for months. Yet, with the exception of the lines leading into Florida, there is almost perfect movement of traffic and such quick delivery of goods from the factory to the store that merchants continue to buy only for immediate requirements, knowing that they can speedily replenish their stocks when necessary.

I regard the "come back" of the American railroads from the crippled and debilitated state in which they were left after government control as one of the greatest demonstrations of courage and stubborn uphill fighting to regain lost ground that is to be found in the business life of this country. It is like the contest against odds that a diabetic friend has been making and who astonished me the other day by returning to the professional life he was forced to abandon five years ago. He had grit, patience and a scientific mind which led him through the avenues of dietary efficiency and medical discovery to escape from a fatal disease. So it has been with the executives of our greatest railroad systems who were weighed down with the heaviest burdens that men can carry, during the two and a half years of Federal super-

vision of their lines, and who saw properties to which they had given their best efforts reduced to uncoordinated parts which creaked with every move; but who also had grit and patience and a spirit of forgiveness, and who applied the new found values of the post-war period to their problems so that today they and their fellow executives can match transportation performances with any that marked the era of high operating efficiency between 1900 and 1910.

It may perhaps be well to substantiate these general statements concerning railroad efficiency. We can do this on the scale of the roads as a whole and by illustration of individual performance. There are certain results which tell the story truthfully and these we will group together as follows:

Year	Oper. Ratio	Employees	Loss and Damage, Per Cent
1916.....	65.54	1,647,097	2.0
1918.....	81.58	1,841,575	2.3
1920.....	94.32	2,022,832	3.6
1921.....	82.71	1,659,513	2.9
1923.....	77.83	1,857,674	1.8
1924.....	76.13	1,751,324	1.8
1925*.....	75.08		

\*Eight months only.

The year 1916 was the best that the railroads had enjoyed to that time and their functioning was of a high order. It will be noted that the operating ratio then was 65.54 per cent of gross revenues. By 1920, when a small army of needless employees had been imposed on the railroad managements and chaotic conditions had grown from too much amateur supervision, the ratio had advanced to 94.32 per cent, leaving little margin for fixed charges and none for dividends. A part of this operating ratio was the cost of loss and damage, injuries to persons and to animals on right of ways. This obviously represents carelessness, thoughtlessness and indifference on the part of those who receive and despatch freight and have to do with getting trains over the road without accident. In 1916 claims absorbed 2 per cent of gross earnings, in 1920, over 3½ per cent, but in 1924 only 1.8 per cent. This year they will be still lower.

In the first six months of 1925 loss and damage claims paid by the railroads were \$20,380,879, or 23.3 per cent under the same period of 1924 and 12.3 per cent be-

low the same period of 1923, although the number of cars loaded with revenue freight during the 1925 period was the greatest ever handled by the carriers for those months. The steady reduction since 1920 has been brought about not only by cooperation between the railroads themselves but between shippers and receivers of freight.

For years the Southern Railway was one of the roads having a conspicuously large item of damage and loss and personal injury claims. In 1913 these claims aggregated over \$1,400,000 as applied to gross revenues of \$68,500,000, or 2½ per cent, and in 1914 they were nearly \$2,200,000, or 3 per cent of gross revenues. Last year they were, including injuries to persons, less than \$2,000,000, or about 1.40 per cent of gross earnings, which is only one of the many evidences of the remarkable improvement in operating efficiency that this system has shown in the last few years.

One might give many other illustrations of the manner in which railroad administration this year has been signally successful. The section of the United States in which greatest discouragements have surrounded railroad operation since 1920 is the Northwest. Politics, crop failures, changes in the currents of traffic caused by the Panama Canal and overbuilding of railroad lines have created a situation in which it has been impossible for railroad officials to work with any enthusiasm. But, like the Eastern executives, they have met the conditions that harassed them and eventually have conquered them, and we now see the Northern Pacific with a transportation ratio in September of 28.74 per cent, the lowest on record, and a total operating cost for the month of less than 59 per cent, compared with over 79 per cent in the same month of 1920. The Northwestern group as a whole operated in September at about 64 per cent as against nearly 68 per cent last year. In October the Union Pacific had the lowest ratio of transportation cost to gross since before the war. Examples of high efficiency in conducting the railroad business of the country might be multiplied. No little gain has resulted from the introduction of shop economies and by use of larger locomotives and cars.

## The Discouraging Days

ONE winter afternoon in 1918 I sat in the office of Daniel Willard in Baltimore and he described portions of a letter which he had recently received from William J. McAdoo, then head of the Railroad Administration. It was more a threatening letter. The same kind of communication had just passed to Samuel Rea, then president of the Pennsylvania Railroad. Under the circumstances most men would have resigned and left the transportation problem to the academic supervisors in Washington. Both Mr. Willard and Mr. Rea had made their reputations and were financially independent. But we were in the most trying days of the war and they went on though many of their junior officers left them for positions which seemed to have much greater promise than those in the railroad world. One of the most stimulating and inspiring records of the last few years has been the dogged fight which these two railroad executives have made to bring their properties back to the physical standards and to the credit status they enjoyed prior to Federal control. Mr. Willard and Mr. Rea were big men before 1918, but they are greater today for having met and solved since 1918 more complex and irritating operating, labor and financial problems than ever before and bringing up from the crippled condition in which the Railroad Administration had left them, their two properties which now are in all ways stronger than ever. In recent weeks the stock of the Pennsylvania Railroad has sold at a considerable premium with a higher per cent of earnings applicable to it than since 1916. This is due to that same operating efficiency which is today the outstanding feature in steam transportation and by which the Pennsylvania reduced its transportation ratio for the first nine months to 36.8 per cent compared with 45.1 per cent in 1921.

The conclusion is that American railroads have now been brought to the highest state of efficiency ever known, and today railroad credit is entitled to stand higher, for the net available for fixed charges and dividends is greater, than it stood in any of the pre-war years.

## German Revaluation Law

THE Commerce & Marine Commission of the American Bankers Association has been making a study of the German revaluation law. This has been found to be very complex since it takes many different forms for various kinds of securities. At the request of the Commission, therefore, the German consulate general has prepared the following statement:

"Certain firms throughout the country are offering German postwar papermark bonds as i.e. United German Mortgage Bonds of 1923, stating that these bonds, according to the German revaluation law, would be converted into Reichsmark bonds at a rate of at least 15 per cent, or even considerably more, of their face value. As the value of the paper mark shortly after the war became very low and went down incessantly until a new German currency in November 1923 was created, such offers would involve a considerable gain."

The calculation, however, on which these offers are based is entirely mistaken. The German revaluation law clearly prescribes that the rate of revaluation is to be computed on the goldmark value

of the respective securities. This goldmark value, according to the law, is considered the same as the face value only as far as the bonds were issued before January 1, 1918. As to bonds issued after this date the goldmark value is to be computed individually according to the value the paper mark had at the date of issue. In order to facilitate the determination of the rate of revaluation a schedule has been published with the revaluation law, showing the goldmark value of the paper mark during the period from January 1918 to November 1923. Consequently, if i.e. a revaluation of 15 per cent is taking place and certain bonds with a face value of 10 million marks have been issued on July 2, 1923, when 100,000 paper marks according to the above-named schedule were worth 2.73 goldmarks, the 15 per cent revaluation is not to be computed on ten millions, but on 273 goldmarks.

Persons inclined to consider such offers as mentioned above should be advised to ask their own bank for particulars about the German revaluation law."

In general, the German revaluation mark assigns definite values to all German securities. The speculative element, therefore, is entirely lacking, since the exact value of all German bonds is known. Moreover, preferences are to be given to certain old holders of securities and these preferences would

not be extended to any new owner of such securities. It is obvious, therefore, that it is to the disadvantage of an old holder of German securities to dispose of them at this time.

The German consulate general has available at his office the most important provisions of the law covering the revaluation of mortgages and other claims with regard to industrial bonds, mortgage bank bonds, savings bank deposits and still other claims. There is also available the most important provisions of the law covering the redemption of public loans. A special commissioner is at work relative to the public loans, which include loans of the Reich, the states and the municipalities.

The material listed above is available to banks and bankers upon application to the German consulate general or to the Commerce & Marine Commission of the American Bankers Association, New York City.

# Italian Volcano or Pyramid?

By ROBERT CROZIER LONG

**There Is No Comparable Political Condition Save That of Russia. Italy Has Been Cleaned Up and Made More Efficient, But Through the Use of Dictatorial Powers. Crisis May Come Next Year. The System in Operation Always Has Failed.**

**F**ASCIST Italy is either a volcano, dormant but not extinct, which will violently explode and spread a destruction without any parallel save Russian Bolshevism; or it is a solid pyramid, the most stable construction known to political architecture, which will undergo no change except solidification by its own enormous weight.

These opposite views were given to me by authoritative Italians during a three weeks' tour in which I visited the chief cities between Florence and Naples. The net result of the conflicting views was no view at all. This is a serious confession, but it is characteristic of the impression one gets in Italy. For though one sees everywhere violent oppositions of opinion as to present conditions, one sees in neither party any real confidence as to the future. The Radical-Socialist opposition shows lack of faith by its complete inertia. The Fascists show lack of faith by their exaggerated repression plans. Based on majority opinion, backed by 300,000 militiamen who are as obedient as the grenadiers of Frederick the Great and as patriotic as the soldiers of Republican Rome, Fascism is yet not quite sure of itself. It is sure of its principles. Of its policy, its prospects, its potentialities of development into an enduring system of government, it is anything but sure.

## The Secret of Repression

**T**HAT is the secret of the great scheme of repression, reprisals and administrative tutelage which Mussolini on the morrow of the murder plot has been obliged to announce. The murder plot was opportune—which does not mean, as part of the opposition alleges, that it was a police fake. A well-known Italian Fascist said to me cynically (while affirming that the plot was indeed genuine) that "if the plot did not exist, it would have to be invented," paraphrasing an ancient saying concerning the Hapsburg Empire. Fascism was already resolved upon repression, upon strengthening its system by exceptional laws, upon extermination of labor unions other than Fascist unions, upon monopolization of local administrative power. It aims at all these things in perfect honesty. It is convinced that it is a good system; and in many things it is a good system. But it lacks the faith to put itself upon a democratic basis; and it has in the "Duce" Mussolini a man who does not believe that reform, efficiency, honesty and patriotism can be permanently ensured by the "outworn methods of democracy."



Benito Mussolini

Fascism, as I saw it, has produced good results. Quiescent volcanoes are famed for their beneficence; on fields of decomposed lava rich vegetation grows. Even if Italy is a quiescent volcano, it is undoubtedly more prosperous than under the first weak post-war governments, and in many respects better off than before the war. Home business is good; agriculture has improved; industry, with exception of the steel and some other branches which were unduly inflated during the war, is flourishing. The state finances are improving; of the depreciated lira one can say that after being not long ago worth only half of France's franc it has now drawn level. A few days after I left that country, Italy regulated her debts to the United States; and even though that was mainly the result of American leniency, still Italy here also has outpaced France. Italy is internally peaceful. There are still Fascist-Socialist riots, and there are Fascist excesses against national minorities; but these are so small in extent that were they not political in origin no foreigners would notice them. Ordinary crime in Italy has steadily declined. Italians look neat, well-fed, well-clothed, and incomparably tidier and smarter than before the war. A traveler who passed from Turin to Naples and who had never heard of Fascism would comment that the nation

showed every sign of increasing material prosperity.

## Italy Is Neat and Punctual

**T**HE Roman Fascist who assured me that he welcomed the plot against Mussolini declared that the order reigning in Italy is alone sufficient to justify the new system. "Government," he said, "is order." The order in Italy is overwhelming. It is even, from a sentimental standpoint, perplexing. I knew Italy in pre-Fascist days when its charm to foreigners was picturesque disorder, or as the severer said, "picturesque dirt." The untidy pedestrians, untidy children, untidy soldiers, all with the patina of immemorial neglect, harmonized perfectly with the "old walls gnawed by time," with the rusty, beautifully sloping square roofs, with the incredible railway trains in which every member of Parliament, every member of Parliament's cousin, every official and official hanger-on, traveled without paying, in which there was place for everyone except the few who did pay.

Today Italy is washed, neat, tolerably speedy, and—for innocents who arrive late at railway stations in the conviction that their trains will also be late—painfully punctual. Trains run as nearly to the schedule as in any country of Europe. The "lightning trains," as they are fairly called, are as rapid as those of France, and produce a smaller crop of accidents.

## Fascists Smart Looking

**A**LL that is Fascism. That you are convinced of because you see the system actually at work. Outward sign and material instrument of Fascism's reforming and "Prussianizing" methods, is the Fascist militiaman. The Fascist militiaman works by direct intervention, as soldiers do in time of war. Of all smart citizens of Italy the Fascist militiaman is the smartest. You do not, as it is winter, see much of his famous black shirt; all except a triangle at the neck is covered by a smart khaki tunic; but you at once distinguish him from an ordinary soldier by his smartness. At the railway stations the Fascist militiaman—usually he is present in pairs—is a military dictator. He superintends, shepherds, and bosses the human, corruptible "fachino" who attends to your baggage; forbids the "fachino" to take tips as bribe for putting more baggage in your coupé than the regulations allow; and even gives orders to the engine driver. In his "Prussian" zeal for orders he goes somewhat too far; at Bologna I witnessed a militiaman cuffing a rail-



*A view of Naples with the now quiescent Mount Vesuvius in the background*

way servant who had failed to provide water for washing. All that is effective, but it comes as a shock to lovers of picturesque disorder.

The Italian Fascist has no instinct for picturesque disorder. If you lament to him concerning the easy going, untidy Italy of former days, he is as pleased as is a Japanese statistician at a tourist's gush about the national cherry blossom. He wants punctuality, soap, official honesty; and he has a certain aggressive Americanism in material things. In Naples are numerous young Fascists who have been in the United States and who speak English admirably. They were the most Fascist in their ideas of all the Fascists whom I met.

### **It Is Despotism**

THESE Fascists do not deny that Fascism is a despotism. They allege that it is a "democratic despotism," like that of Mustafa Kemal Pasha at Angora; but they differ from Mustafa Kemal in not promising that it will ultimately lead to democratic freedom. As long as they meet no physical opposition they are content to rule by decree, not by violence. But the threat of violence is always latent. Fascist proclamations at Florence are masterpieces of this latency. Florence is not only a chief center of the Mussolini system, but it has also a particularly active, though very small, opposition faction. The Fascist headquarters are in a big house in the Piazza Mentana, facing a monument to the heroes of one of Garibaldi's less fortunate military attempts. This house displays no less than seventeen different proclamations warning or enjoining citizens. Some of them concern the closing of places of amusement as sign of grief for the killing of the Fascist Giovanni Luporini. The proclamations begin politely by "requesting" or "advising" the closing; but every one of them ends with a thinly veiled threat. No one disobeys. Everywhere the Fascist "corporazioni" rule by entirely illegal decrees, enforced by veiled threats. Often the decrees are reasonable

and even beneficial. But there no pretence is made that citizens have a right to test their reasonableness. The "Duce" or his local lieutenant has issued orders; and it is "old Roman tradition," as one of the Florence proclamation says, "for all good Italians to obey."

In South Italy Fascist "corporazioni" not only enjoin order, they enforce it; and it is often badly needed. During a tour from Naples to the Cape of Posilipo, whether one goes for a view over the famous Bay of Baia with its volcanic surroundings, I inquired from an Italian why the gates of certain very untidy villas were chained up and sealed. That, he replied, was a Fascist measure. The unregenerate villa-residents persisted in casting their domestic garbage at the side of the road. Ordered by the municipality to desist, they persisted. As they were themselves Fascists, it was resolved to adopt mild measures of compulsion. To each was posted a polite letter saying that "His Illustrousness, the villa-dweller" (in South Italy everyone is illustrious) "would certainly not like to walk or drive along a dirty street, and to prevent that calamity the 'corporazioni' has decided to close his gates. He could stay at home." Next day I was told that the garbage had disappeared.

This mild humor is not characteristic of the Fascist dictatorship. Mussolini's press censorship is usually without the least humor, and often without the least common sense. It is impossible to make out from Italian newspapers what is going on in Italy, or even—where Italy is involved—what is going on abroad. Citizens do not hear that their newspapers are suppressed until they cease receiving them. When Fascists destroyed the offices of the Triest Slav newspaper *Edinost*, no newspaper was allowed to mention the fact. At Riva on the Lake of Garda, an Italian journalist assured me that all the German language newspapers in the Italian-ruled part of the Tyrol were appearing, and he was surprised when I told him that every such newspaper

—except one at Meran—had been suppressed.

### **More Severe Than Russia**

THE Fascist censorship is severer than the Tsarist-Russian and even than the Bolshevik-Russian. News in Russia was never permanently kept out of the newspapers; it was merely given official coloring. In Italy important events which the world has known for months are unknown to citizens. The last disorders at Florence, Brescia and Parma were not even mentioned. Sometimes the censorship is abused for private purposes. Turin in October was the scene of a non-political family drama and scandal involving a murder, an abduction, and the circulation of forged libellous letters. The whole affair, including the murder, was kept out of the newspapers because one of the culprits was a Fascist. Signor Mussolini has declared that he objects to such abuses of the censorship, which should be severely political. But Mussolini has only one pair of eyes and one pair of hands; and his Fascism has the weak side of all dictatorships that every one of its underlings plays dictator.

In Italy one hears no rational criticism of Fascism. Opposition there is, and resentment is sometimes felt. But no Italian who values his security any longer dares to publish unfavorable views. A prominent Italian who gave me strong views against Fascism declared that if his name was used, "his life would not be worth an hour's notice"—which was an exaggeration. This intelligent gentleman predicted the collapse of Fascism on the ground that while nationalistic in race and language questions it is not national at bottom. Firstly, he said, Fascism is militaristic, and Italy has never been militarist. "We never had an Italian army before the union of Italy. We had Neapolitan armies, Papal armies, and so on. Nothing is farther from Italian sentiment than military expansion." A few days after that view was expressed, Mussolini, just back from Locarno, made a speech about Italy's frontiers which recalled Kaiser Wilhelm at his worst. Secondly, the ex-senator declared, Italy is not race nationalistic, and Fascism is. In all modern times large numbers of Italians have lived under foreign rule, and that is the situation even today. Though Fascism revels in abstract nationalism, it cannot make the questions of Italian Corsica, Malta and Tessin take concrete form. Fascist attacks upon the German and Slav minorities are not popular even in intelligent Fascist circles. Thirdly, Italy is not materialistic, and Fascism is very materialistic. Its first strength came from the industrial employer class, who rightly dreaded Communism. The mass of Italians being anti-Bolshevik, gave their support; and that was the real impulse behind the march on Rome in November, 1922. But though there is poverty in Italy, there is no strong instinct for enrichment such as one sees in North-European countries. The material prosperity which Fascism undoubtedly brought makes no very powerful appeal to the mass of Italians. Now that Italy is convinced that Bolshevism has lost its chance, she cares very little for industrial and labor antagonisms. It is a weakness of Fascism that it thinks that Italian

hearts will be permanently kept by fostering material well-being. Italy in this differs much from Europe's new civilizations.

### The Crisis in 1926

THIS critic declared that the crisis in Fascism would not come for several years. One of the sharpest thinkers in the Fascist party, Signor Farinacci, who holds the position of Secretary-General, declares that the year 1926 will see the test. He puts this down to the fact mentioned above that the Fascist leaders are by no means as sure about policy as they are about principles. It is as result of this, and not of the murder plot, that Mussolini aims at—to quote his own expression—"crystallizing Fascism" before the winter is out. "Crystallizing" means solidifying by means of giving concrete legal forms; and this in turn means a union of repression with an administrative revolution. With this aim Mussolini convened the Chamber for November 18, which is three weeks earlier than was at first intended. The Chamber is expected to accept his legislative program. The opposition is disunited. One of its parties, the Aventine, is even disunited in itself, the vexed question being the strike against Parliament. The Democrats and the Populists desire to return to Parliament; the Republicans and Maximalists cannot come to any decision; and the Unitarian-Socialists have not so far dared to open their mouths. The "crystallization" laws may therefore go through easily. They consist of a measure against the anti-Fascists who reside abroad; increased power for Mussolini; a labor union law; a radical change in municipal government; and displacement of the present chambers of commerce by provincial councils, which will simply execute the orders of the economic departments of state at Rome.

On the anti-Fascists residing abroad is placed the main culpability for the murder plot. The "Fuorusciti," as the same class of political exiles was called during the internece wars of the Middle Ages, are to lose their civil rights, to have their property confiscated, and to be liable to summary arrest if they set foot on Italian soil.

Mussolini's power is to be increased by creating a special department for the Minister-President, which will make him a sort of Chancellor, standing above his ministers. Under the present constitution he is merely first in a body of colleagues. The municipal reform law will increase the power of the prefects, who are nominees of and mandatories of the Rome Ministry of the Interior; and it will reestablish the old institution of the "podesta," or mayor, with almost absolute power. Under the labor union law the Fascist unions will be given a monopoly and will be recognized as state institutions.

### Fascism is Mussolini

ALL this program bears distinctly the imprint of Mussolini's personal views and wishes. There are Fascists who do not approve of it, and who would prefer an electoral campaign to put Fascism upon a democratic basis. But Fascism is Mussolini. He made it, quickened it, keeps it alive. Of all dangers to the Fascist system this



Another scene in Naples, showing the historic Castello Nuovo, the Bastile of Naples, on the left, and the Castello Sant' Elmo, which commands a magnificent view of the ramparts from its high elevation

domination by Mussolini alone is the greatest. Bismarckian and post-Bismarckian Germany are an illustration of the perils lying in a political system created by and dependent upon a single man of political genius. Mussolini is weak in health, nervous, overwrought, always exposed to the risk of assassination. Even with Mussolini alive there are doubts, though no opposition, in matters of policy. Without Mussolini, Fascist unity would hardly survive. Parties of overwhelming strength, and such is Fascism, always tend to break up, because a strong opposition, which cements together parties of normal size, is lacking.

The question whether Fascist Italy is a menacing volcano or an unshakeable pyramid would be answered differently with Mussolini alive and with Mussolini dead.

The disappearance of Mussolini would easily convert it from the second into the first. In Europe enlightened despotism of the Mussolini brand has a bad antecedent history. In the eighteenth century, the age of its origin, it was tried without success by a whole bevy of monarchs—by Joseph II of Austria, by Catherine II of Russia, by Gustav III of Sweden. All of them failed in the "enlightenment" and had to be content with the "despotism." It is impossible to regard Fascism as the ultimate and permanent system of Government in Italy, much less to expect its spread to other European countries. As long as Mussolini lives Fascist Italy may continue to be orderly and prosperous. After that it will probably have to find a different system for the maintenance of order and prosperity.

### Mid-Continent Fiduciary Conference

AS this magazine goes to press there was opened at the Hotel Statler in St. Louis, a Mid-Continent Fiduciary Conference under the auspices of the American Bankers Association. The conference was designed to serve all classes of financial institutions having fiduciary powers.

The program was divided into six general heads covering a wide range of fiduciary operation.

Under the first head, "Executors and Administrators," William C. Barber, trust officer of the First National Bank of Joliet, Joliet, Ill., and Frederick Vierling, vice-president, Mississippi Valley Trust Company, St. Louis, made addresses.

"Trusteeship of Estates" was discussed by Frank N. Bancroft, trust officer of the Colorado National Bank, Denver, and by John C. Mechem, vice-president First Trust and Savings Bank, Chicago.

"Transfer Agent and Registrar of Stock" was discussed by David P. Condon, registrar, Farmer Loan & Trust Company, New York.

The speakers on the topic, "Trusteeship

under Corporate Mortgages" were F. F. Taylor, secretary, Illinois Merchants Trust Company, Chicago, and C. Allison Scully, vice-president, National Bank of Commerce, New York.

"Trust Funds, Their Care and Investment," was presented by W. J. Stevenson, vice-president, Minneapolis Trust Company, Minneapolis, Minn.

"New Business and How to Get It," was the subject of an address by Allan B. Cook, assistant vice-president, Guardian Trust Company, Cleveland, Ohio.

The final stated number of the program, "Community Trusts," was presented by Frank D. Loomis, executive secretary, Chicago Community Trust, Chicago, Ill.

This conference, important because of the various subjects valuable to all engaged in the conduct of fiduciary business and notable also because of the circumstance that in this conference there are participating with equal benefit the representatives of trust companies, national banks and state banks will be reported in the January issue of the JOURNAL.

# Putting the Brakes on Automobile Partial Payment Paper

By GLENN GRISWOLD

**Banks Want at Least 85 Per Cent of Paper Offered for Rediscount by the Finance Companies to Conform to Standard Terms, Calling for One-Third of Purchase Price Down and Full Payment Within Year. Loss Ratios Go Up As Terms Grow Longer.**

THE second annual convention of the National Association of Finance Companies, representing the larger part of a banking business which handles two billion dollars a year of automobile paper, met in Chicago the other day and undertook again, and on a somewhat new theory, the task it assumed a year ago of stabilizing and giving safety and conservatism to the business of financing the partial payment purchase of automobiles.

This work was initiated by the banks. It is being carried forward by the finance companies because they believe it to be to their own best interests. Yet the greatest and most immediate benefits accrue to the banks, who finance the finance companies; theirs is the obligation and the opportunity to do the things immediately essential to put into practise all of the splendid plans of the association.

## Finance Companies Organized

JUST about a year ago some of the banks, which carried large loans to automobile finance companies, invited representatives of the leading companies to meet and organize. There were 150 of the principal companies represented at this meeting. It was the almost unanimous opinion of those present that a hard and fast set of rules governing the terms on which paper should be accepted could be agreed upon and all finance companies induced to accept them. The arbitrary rule was that in the purchase of new cars the initial payment should be one-third of the price, and the balance divided into twelve equal monthly payments; while used cars were to be sold on a minimum payment of 40 per cent, and a maximum of twelve equal monthly payments.

Pioneers in the movement stuck to their guns and managed to impose those terms on most of the industry for several months. Bankers then undertook to require complete conformity with the rule if paper was to be accepted as collateral. Some automobile manufacturers protested, but notably one practically ordered banks influenced by his deposits to ignore the rule. Finance companies in Indiana and on the Pacific Coast staged a little competitive warfare of their own. The business by common consent then abandoned rules but did the best it could to live up to the spirit of them.

At this conference just closed it was agreed that as yet it is impossible to require that every automobile note conform to the

terms which are called "standard." Education of bankers, automobile manufacturers, and finance companies, is necessary; and the importance of education ranks in the order stated. The present thought is that by co-operation with banks the association may be able to establish for the present a practice by which banks will require a minimum of 85 per cent of standard paper. Such a rule would be regarded as safe, unless some severe reaction should occur in the automobile business. The ideal, of course, would be 100 per cent conformity with the standard paper rule.

C. C. Hanch, general manager of the National Association of Finance Companies, presented a brief report which told the whole story and dramatized the plans of the association. In a very few figures he demonstrated the soundness of paper drawn in terms of reason, and the risk and expense of that which violated the so-called standard to any material extent.

## The Loss Ratios

A SURVEY of the operations of hundreds of companies big and little, in thousands of transactions, shows that the loss ratio on new car paper on which one-third has been paid down and twelve months is the time limit, is .163 per cent. With the same initial payment but with note maturities extending nineteen months or more, the loss ratio becomes .716 per cent. Twelve-months paper on which 24 per cent or less has been paid down shows a loss of more than 1 per cent; and with an initial payment of 24 per cent or less and maturities spread over nineteen months or more, the loss ratio becomes 4.583 per cent.

In numbers the business finds that it must repossess 1 1/4 per cent of the cars it sells with a first payment of one-third or more. When the initial payment gets below 25 per cent, 11 per cent of the cars must be repossessed; and the ratio of repossession is 537 per cent of what would have been true had the car been sold according to the so-called standard terms.

Those are the figures and those are the losses. Bankers and finance companies must anticipate them on all of the "special" paper which they allow in their collateral, whether the special paper constitutes a negligible fraction of collateral, or 25 per cent—as has been the case in loans made by some bankers.

There were many important speakers and splendid papers on the program. A. R. Erskine, president of the Studebaker Corporation, is one of the manufacturers who is making a fight for complete conservatism and absolute soundness in the financing of automobile sales. Arthur W. Newton, vice-president of the First National Bank of Chicago, who probably did more than anyone else to inspire the organization meeting of a year ago, presented the bankers' point of view; and the heads of many finance companies spoke for their branch of the business. All agreed that the ideal is the so-called standard type of paper. There was almost a consensus of opinion that the standard could not be rigidly enforced at this time; that education was required; and that bankers could do more than anyone else to help stabilize the business.

## Losses Have Been Amazingly Small

AS a matter of fact, losses have been amazingly small considering the nature of the business. Banks which have exercised any reasonable caution in the granting of loans have lost less on these commitments than on any other sort of commercial loan. One bank which constantly has many millions loaned to finance companies has been making this kind of loan for several years and has suffered but two losses in that time: one was a \$300,000 failure, on which 98 1/2 cents on the dollar has been paid, another cent is about to be distributed, and the half cent probably will be forthcoming. The second failure totaling but \$30,000 already has paid 80 cents on the dollar and probably will eventually pay 95 cents. Yet public and banking apprehension for the growth of partial payment buying generally, and uncertainty as to what might happen if the automobile business were to suffer severe reverses, counsels that eventually strict conformity with a reasonable standard must be had. It may be had soon and maintained indefinitely if the banks, which make finance-company loans, are willing to require it.

The net result of the association meeting was the consensus that the business is reasonably safe so long as special paper does not constitute more than 15 per cent of loans and the agreement that this 15 per cent should be reduced to nothing as fast as education within the industry can accomplish it.

# The Hope in Cooperative Marketing

By WILLIAM M. JARDINE  
Secretary of Agriculture

**Agriculture Has More Than a Single Difficulty Capable of Being Cured by a Single Remedy. Farmers Coming to Realize that Better Regulation Is Needed Both of Production and of Marketing. Elimination of Middlemen Not Planned by Coops.**

**T**HE AGRICULTURAL PROBLEM" usually is discussed as if agriculture had only a single difficulty capable of being cured by a single remedy. Actually, of course, there is not just one farm problem; there are many.

Small improvements made here and there by dealing with particular aspects of the agricultural situation as they demand attention should not be despised. In the aggregate they may make up a greater saving than can be expected from any one expedient, no matter how sweeping and fundamental it may seem. What we need is a balanced outlook on the situation whereby all phases of agriculture will receive their due share of attention. There is no object in oversimplifying things at the expense of truth.

As I can not hope, in the course of a short article, to discuss everything that concerns the farmer, I will confine myself to a matter in which farmers greatly need the cooperation of bankers. This is cooperative marketing. Our farmers are not apt to forget that the foundation of a prosperous agriculture must always be efficient and rightly adjusted production. It has been impressed upon them very strongly in recent years, however, that efficiency in production is not enough to insure a profitable agriculture. Efficiency in reducing costs and in keeping a harmonious balance among different farm enterprises may benefit the consumer more than it benefits the producer. This takes place when the increased facility in production leads to increased volume of production irrespective of market needs. As a protection against this possibility, farmers are coming to realize that better regulation is

needed both of production and of marketing. These two aspects of agriculture, in fact, are inseparable. Recognition of this truth has had much to do with the rapid growth of farmers' marketing associations.

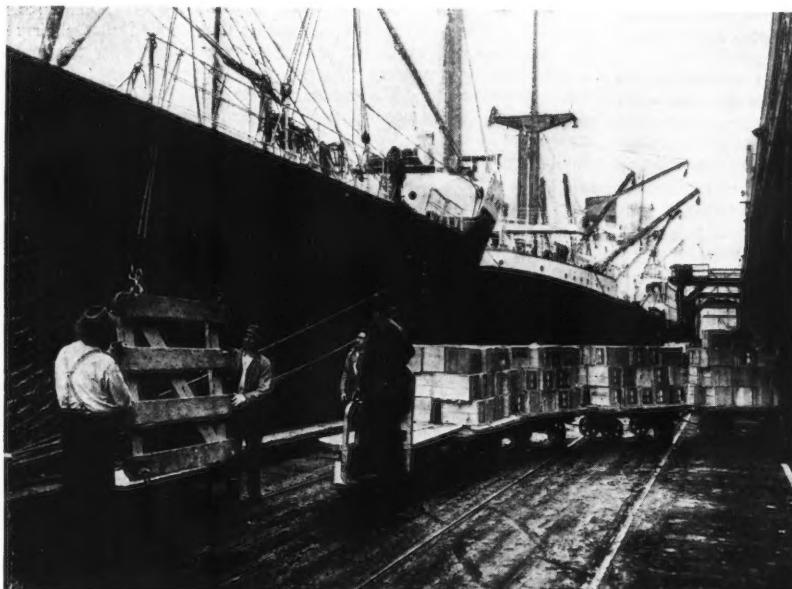
The business transacted by farmers' cooperative buying and selling organizations this year has been approximately \$2,500,000,000. This is about one-fifth of our total agricultural business. There are more than 12,000 active cooperative associa-

their average volume of business from \$191,112 to \$3,405,765. Dairy marketing associations reported an increase in their average business in the same period from \$50,296 to \$166,683. Fruit and vegetable organizations increased their business in the same years from an average of \$153,336 for each association to \$284,081.

Nevertheless, cooperation in this country is still in its infancy as compared with other economic and social

institutions. Its possibilities are enormous. In its early days the cooperative movement was distrusted and attacked by certain business interests. Cooperation today, however, is widely recognized as a sound method of giving agriculture the advantage of large-scale operations and lessened destructive competition. It is recognized that the object of cooperative marketing is not to secure for the producer the profits of independent merchants, but rather to effect improvements and economies in selling and distribution.

This involves proper grading and standardization of grades and packs. It goes back to production and forward to



*The American farmer sends his products abroad. Loading boxed apples for export at Seattle*

tions in the United States, having an aggregate membership of more than two million farmers. The average business of cooperative associations more than doubled between 1913 and 1922.

In 1913 the associations of which the Department of Agriculture has a record had an average business of around \$100,000,000. The corresponding figure for the same associations in 1922 was \$216,000,000. Tobacco marketing associations increased their business from an average of \$141,968 each in 1913 to \$6,706,125 in 1922. Cotton associations in the same period increased

consumption in a manner that is a benefit to the whole community. It is a means, in short, of enabling farmers to apply modern business methods to their business. It is not simply a method for obtaining a better price for a single year's crop. It is a continuing process for adapting production to marketing demands, for insuring less wasteful distribution, and for reducing the spread between what the farmer receives and what the consumer pays.

It is true, of course, that many attempts at cooperation on the part of farmers have failed. Nevertheless, the failures of co-

operative associations have not been proportionately greater than those of other business enterprise. When cooperative associations fail, it is usually for the same reason that business organizations fail. Insufficient capital, an insufficient volume of business, and poor management are the chief obstacles to success. A percentage of failure in cooperation is to be expected. Growth and experiment necessarily involve risk. It is by the net gain of the movement as a whole, and not by its incidental failures, that it must be judged.

### Will Not Eliminate Middlemen

IT is sometimes predicted that cooperation will eliminate middlemen. This is a mistaken idea arising largely from lack of information regarding the services that are necessary to carry farm products from the farm to the consumer's table. Many of these services can not be performed by farmers' organizations. How far cooperative associations may profitably carry their goods along the road to the consumer is as yet an unsolved question. What the relationship of the cooperative movement should be to the wholesale and retail trades must be worked out by experience and by the combined judgment of all the agencies necessary in distribution. I venture the prediction that when the position of the movement is finally stabilized in our economic system, it will be found to have benefitted other legitimate interests rather than injured them.

Bankers have done great service to the cooperative movement in the last few years by extending liberal credit to marketing associations. Their help has been indispensable to the cotton cooperatives, the tobacco cooperatives, the citrus fruit marketing organizations, the dairy associations—in fact, to every branch of the cooperative movement. It is extremely gratifying to me to know that the bankers have been quick to recognize the advantage to themselves, and also to the cooperative movement, of accepting Federal warehouse receipts as security for commodity loans. The United States Warehouse Act is intended, among other things, to assist the farmers' cooperative associations in orderly marketing. It could not have its full effect in this direction without the cordial cooperation of the banking community. This, I am happy to say, generally has been given.

Through the warehouse act the Department of Agriculture is trying to serve both growers' cooperative marketing associations and bankers. Orderly marketing requires the storing of crops and their release from storage as they are needed for consumption. Generally the members of cooperative marketing organizations want money immediately after harvest to pay off production loans. Holding products off the market does not produce cash. To meet this need the United States Warehouse Act was passed in 1916.

Through this law Congress aimed to eliminate all unsound or evil warehousing practices. Such practices, while followed by but a few warehousemen, had cast a cloud on warehouse receipts covering farm products. It also required that the terms and conditions of the warehouse receipts is-



sued by warehousemen operating under its provisions should be specific and form a complete contract. In addition it was sought to have warehouse receipts identify stored products, so that the owner on surrendering his receipts would be certain of getting back exactly what he put in the warehouse or, in the case of fungible products, such as bulk grain, that he would get grain of the same condition, grade and quality.

Coupled with all this, the law was designed to require such information on the warehouse receipts as to tell a complete and true story of the products to the banker who is approached for a loan and is offered Federal warehouse receipts as collateral.

If the banker is offered receipts which fail to state the grade of a product, he can infer that the depositor of the products has not required the warehouseman to grade the product. No warehouseman can be licensed under the law until he can establish to the department's satisfaction that he has some one connected with his warehouse who is competent to grade and inspect products. In all instances the weight or quantity of the product must appear on the receipts, and if the condition is other than normal, that also must be shown.

### Preserving Collateral Value

IN administering the law, the department is striving to meet all problems and conditions of producers, producers' cooperative associations and warehousemen, but in doing so it insists that nothing shall be done which might affect the value of the warehouse receipt as a piece of collateral. It recognizes that credit is sensitive to every unsound or even apparently unsound practice. It therefore endeavors to see that nothing is done which may in any way affect or impair the value of the Federal warehouse receipt as collateral for a loan.

The hundreds of millions which cooperative marketing associations have borrowed in the last five years on the basis of Federal warehouse receipts, to say nothing of the loans made to individual farmers and dealers in agricultural products, are striking evidence of the service the Department of Agriculture is rendering both the producers of agricultural products and the bankers.

Doubtless farmers will take the lead in further developments of cooperation. Their success, however, will depend to a great extent on the encouragement and support they receive from business interests, from bankers, and from other groups in the population. When these groups realize that the national interest is to be served by cooperation, they will be ready with their assistance. It is a hopeful augury that the bankers have been quick to recognize the merits of this

new development in agricultural distribution. It goes without saying that the future of cooperation will be governed largely by the knowledge farmers and cooperative leaders have of its possibilities and limitations. The disinterested counsel and guidance of competent bankers can greatly increase the sum of that knowledge.

It is the peculiar province of the banker to examine economic undertakings with a critical eye and to refuse his support to those he believes to be unsound. Sometimes, of course, in pursuance of this function he discourages sound as well as unsound enterprises. In the main, however, I think we may say the American banker is not lacking in business imagination, and in most cases is a spur to intelligent initiative rather than a check upon it. At any rate that estimate of him is borne out by the way he has encouraged cooperation in recent years, in the face of considerable opposition. There can be no better guaranty of the future of the cooperative movement than the constant aid of bankers in formulating its financial policy.

### The Foundation

THIRTY-SEVEN states, including the District of Columbia, are at present actively at work raising their quotas for the American Bankers Association Educational Foundation. These states have indicated that their subscriptions will be completed by the first of January, 1926. Seven additional states have advised headquarters that their quotas will be subscribed in full and have pledged the necessary amounts. To date, however, there has been no word from this group, advising just how far they have progressed in their work. From five states there has been no word at all but it is confidently believed that they are quietly going ahead with the raising of the funds in their respective communities, and that they will report completed subscriptions within a short time.

Those charged with the work of raising funds in the various states are men of vision and public spirit, who are willing to give their efforts for a worthy cause. They are working to raise this nation out of the class of "Economic Illiteracy" in which, according to one of our outstanding men, we are now living.

Subscribe to the American Bankers Association Educational Foundation through your State Committee when it calls on you, or you may send your check direct to headquarters, at 110 East Forty-second Street, New York City.

### Convention Calendar

American Bankers Association

DATE	PLACE
Dec. 10, 1925—Administrative Committee	St. Louis, Mo
May 3-6, 1926—Spring Meeting of Council	Pinehurst, N. C.
Oct. 4-7, 1926—Next Convention	Los Angeles, Cal.
State Conventions 1926	
June 17-18 —Illinois	Springfield
May 18-19 —Missouri	
May 25-26-27—Texas	Galveston

# Will Our Foreign Investments Continue at a Billion Dollars a Year?

By GROSVENOR JONES

**Nation Easily Able to Set Aside That Sum for Annual Export and Still Meet All Domestic Needs. Influence of the Urge of American Industry to Possess Itself of Sources of Raw Material Supply. Law of Compound Interest Will Require Heavy Reinvestment.**

**N**OW that the United States has become for the time being at least the world's greatest investing nation, the question has been raised as to whether the outflow of capital will continue at the rate approximated during the last two years. Making predictions as to the course of financial events is a hazardous undertaking. This is true particularly with regard to forecasts of the international movement of capital since this is affected not only by the customary economic factors but also by political and psychological considerations. While this country is at present investing great sums in foreign loans and enterprises, it is still outranked by Great Britain in the cumulative total of foreign investments. Great Britain's foreign holdings probably aggregate three billion pounds or about fifteen billion dollars, while ours are from ten to eleven billion dollars, intergovernmental debts being excluded in both cases.

Great Britain's foreign investments represent the accumulations of a number of generations, while ours have been made very largely by the present generation. In fact, the United States has become a creditor nation only during the last ten years. At the outbreak of the war, foreign investments here exceeded American investments abroad by perhaps three billion dollars, whereas today the latter exceed the former by at least seven billions, exclusive of intergovernmental debts.

## Will Add to Its Foreign Investments

**T**HE world has probably never witnessed such a rapid and decided shift from a debtor to a creditor position. But what is equally significant is the probability that this country will for an indefinite period add to its foreign investments by a very large amount each year. That this increment will continue at the rate of a billion a year I am not so certain, but I feel safe in predicting that it will be very large. In making this prediction I have in mind the following considerations:

1. The United States is now the world's chief source of new capital.

2. Many of our manufacturing industries—in particular the so-called "heavy" industries—have reached the stage at which foreign markets for their surplus production are quite desirable, if not absolutely necessary.

3. The outflow of capital will enable the United States to maintain merchandise exports at a high level.

4. As our manufacturing industries develop there is an increasing tendency for them to acquire foreign sources of raw materials.

5. The investment of American capital abroad, so far at least as it is productively employed in the development of the natural resources of foreign countries, will add to the purchasing power of those countries and therefore to the production and flow of goods in international trade, which will benefit the world at large.

6. During recent years when domestic capital demands have been extraordinary we have been able to invest a billion or so abroad with comparative ease and without any inconvenience to domestic borrowers.

Stress should be laid on the fact that we have reached a point in our economic development at which the domestic demands for new capital will not under normal conditions wholly absorb current capital savings. The country has built practically all of the railroads it is likely to need; although railway electrification will require huge capital outlays, this will be spread over a number of years. The development of electric power and telephone companies will absorb billions for some years to come, but this investment movement has been in full progress for several years. Large amounts of capital will be necessary to complete the highway construction program and to carry out drainage and irrigation projects.

## A Billion a Year

**T**HERE is no denying that the domestic demand for new capital will continue to be large. Nevertheless, the fact that American investors have been able for the last two years to make foreign loans and investments at the rate of over a billion a year in the face of the extraordinarily large investment in new building construction, in highways and other public works financed by state and other local government bond issues, and in public utility enterprises, leads me to believe that we shall probably not find it difficult to continue setting aside a billion or so a year for foreign investment operations.

Building construction will not require such large sums after the cumulative shortage of the war and post-war periods has been made good. It is also probable that the

borrowings of state and other local governments will not continue at the extraordinary rate of recent years, since many of these governments have reached or will shortly reach the debt limits imposed by law, and since with the reduction of the Federal surtaxes the demand for tax-exempt bonds will decline in a marked degree.

Nor is it likely that the decline in the demand for capital for building construction and for state, county and municipal purposes will be offset by an increase in the capital demands for other extraordinary purposes. The public utilities—electric light and power and telephone companies—may increase their borrowings but probably not sufficiently to take up this slack. The railroads will, however, probably come into the market again, now that their financial position has improved, but they will be cautious borrowers. Irrigation and drainage projects will be resumed on a fairly large scale in the course of time as the demand for additional agricultural lands increases, but this does not appear imminent.

## Little Domestic Financing

**A**S for our manufacturing industries, it appears likely that few of them will require extensive new capital financing in the immediate future. In the basic industries, such as those producing steel, lumber, copper, machinery, and textiles, present productive capacity exceeds the normal domestic demand plus exports. Accordingly, the general tendency in these industries will be to stand pat on the present capital investment in plant and equipment. In any case, many of the leading companies could finance plant extensions out of their liquid surpluses and without resort to the capital market.

Incidentally, it might be noted that despite the tremendous amounts of fixed capital invested in buildings of various kinds, in highways and other public works, and in public utilities, time deposits of our commercial banks, savings bank deposits, and resources of building and loan associations have increased at a rapid rate. It would therefore appear that the proportion of the national income now being converted into fixed capital is not excessive.

The huge domestic capital flotations of recent years have not been accompanied by any inflation. The volume of currency in circulation is now only \$4,800,000,000 as compared with \$5,628,000,000 in November, 1920. The Federal Reserve ratio stands at

about 73 per cent. Moreover, the increased volume of trade during recent months has been financed with comparatively little recourse to the Federal Reserve Banks whose rediscounts now amount to about \$600,000,000 as compared with a peak of about \$2,800,000 four years ago. The banks of the country have in fact been able not only to take care of the increased commercial demand for funds but also to increase their investments in securities and to make enormous loans against stocks and bonds. There has been an increasing economy in the use of credit due primarily to the latter-day policy of hand-to-mouth buying, more rapid delivery of goods by rail and truck, and elimination of waste through standardization of products, etc.

### Exports Fostered by Foreign Loans

OUR present industrial prosperity is attributable in a large degree to the maintenance of our export trade at relatively high levels. Practically all branches of industry have benefited directly or indirectly as a result of this continued outflow of merchandise. To a very large degree these exports have been fostered by our large foreign loans and investments. The close connection between these two movements may not be clearly understood in this country, but that the British industrial leaders and economists are aware of this relationship is evidenced by the recent successful agitation in England against the British embargo on foreign loan flotations in the London market.

The pressure to export will continue with undiminished force. And the financial interests affiliated with a number of our leading industries will be encouraged to facilitate the export trade of the latter by placing foreign loans or by making direct investments. It is not generally understood that an American loan to a foreign government

or a foreign corporation benefits American export trade even though there are no strings attached to the loan. Certainly this benefit will exist so long as the American commodity price index continues at its present competitive level with relation to those of other important producing countries.

Direct investments in American-controlled enterprises abroad lead to increased exports of American machinery, equipment, etc. And direct foreign investments show a tendency to increase because of the opportunities now offered for the investment of American capital therein. Even in the pre-war period, when we were a capital-importing rather than a capital-exporting nation, large amounts of American capital were invested in branch manufacturing plants in Canada and Europe, in mining enterprises in Mexico, Chile and Peru, in oil properties in Mexico and other countries, in sugar mills, tobacco factories, port works, etc., in Cuba, in banana plantations in Central America and in meat packing plants in the River Plate countries. At the outbreak of the war our direct investments abroad aggregated nearly two billion dollars. These investments were induced not only by the prospect of a higher return on the capital employed but also by special factors such as the desire on the part of the interested concerns to get behind foreign tariff walls or to protect their existing international trade position or to assure themselves of foreign sources of raw materials.

### The Urge for Sources of Raw Materials

THE same factors that fostered this direct investment of capital abroad in the pre-war period are at work today with increasing force. The urge to assure ourselves of foreign sources of raw materials is even greater, as is witnessed by the acquisition of oil lands in Colombia and Venezuela, of manganese properties in Brazil and the

Caucasus, of nitrate works in Chile, of tin mines in Bolivia, of rubber plantations, etc. Moreover, our ability to finance such ventures has greatly increased since the war; the prospective returns on such investments are now more alluring; while the opportunities are greater since the former great investing countries are less able to export capital.

Another item of great significance is the fact that the annual returns on our outstanding foreign loans and investments probably aggregate at least \$500,000,000. In addition, the United States is receiving about \$200,000,000 a year in interest and principal on the foreign government debts to this Government. Against these payments must be set down \$150,000,000 to \$175,000,000 for dividends on foreigners' investments here. The net in our favor on these capital items is therefore at least \$500,000,000. The tendency for some years to come will be to reinvest abroad an amount at least equivalent to these net returns, and with the law of compound interest at work our reinvestments abroad alone would amount to a billion before many years had passed.

The United States appears, therefore, to have embarked on a course of capital exportation rather similar to that which Great Britain followed for many years prior to the war. Foreign investments may not be so imperatively needed as outlets for our surplus capital savings as was the case in Great Britain, but they appear to many to be a line of least resistance for us and a desirable thing for the investee countries. If made with care and caution our investments abroad need give us no more concern than do our domestic investments, but at this stage of our experience—or rather inexperience—in foreign financial ventures, special care must be taken to prevent serious losses, lest the ardor of the American investor be chilled.

## Vice-Governor Platt's Views on Section 9

To the Editor:

M. R. L. T. McFADDEN, Chairman of the Committee on Banking and Currency of the House of Representatives, in his contribution to the November issue of the AMERICAN BANKERS ASSOCIATION JOURNAL, entitled "Why Section 9 Is Necessary to the National Bank Bill" declares that the only opposition to this section comes from "a small but influential group of state member banks" in one state, California, and from "one or two Cleveland state member banks, which desire to continue to establish branches in the suburbs of Cleveland."

It may be that the only organized opposition to this section comes from the groups mentioned, but it is nevertheless true that the section affects banks in no less than twenty-four states. It sets up a new standard of eligibility for membership in the Federal Reserve System, a standard not related to safety of management or sound banking policy, but solely to the question whether banks have branches or offices (the

bill defines all additional offices as branches) outside of "the corporate limits of the municipality in which the parent bank is located."

NOW there were in June, 1924 (Federal Reserve Bulletin, December, 1924), 245 such non-member banks located in twenty-three different states as follows:

Arizona	4
Alabama	4
Arkansas	2
California	50
Delaware	4
Florida	1
Georgia	10
Indiana	1
Louisiana	21
Maryland	15
Maine	20
Michigan	3
Massachusetts	6
Mississippi	8
North Carolina	34
New Jersey	4

Ohio	8
Pennsylvania	9
South Carolina	4
Rhode Island	2
Tennessee	14
Virginia	18
Washington	3
Total	245

This list of states should have included New Hampshire from which state a bank with two branches outside "the corporate limits of the municipality in which the parent bank is located" (Conway) has since been admitted to the Federal Reserve System. Of state banks maintaining such outside branches 245 are non-members and only fifty-five are members of the Federal Reserve System. This contrast of figures alone should convince any unprejudiced student of the subject that Section 9 cannot possibly accomplish what its proponents expect of it. Instead of strengthening the Federal Reserve System it will weaken it, (Continued on page 457)

# Federal Reserve Control of the Money Market

By GEORGE E. ROBERTS  
Vice-president, National City Bank, New York

**New Banking System Has Not Reduced Amount of Banking Funds for Stock Exchange Trading. If Speculation Is Overdone and Carries Prices Too High, Reaction Inevitable. Federal Reserve Credit Should Not Be Used to Support Speculative Boom.**

WHEN the Federal Reserve System was organized one of the common expectations was that it would reduce the amount of banking funds employed in stock market operations. It was said that the reserves no longer would be employed in that manner, and that the reserve banks through their discount policies, would be able to exercise a considerable degree of control over market activities. Unquestionably one of the reasons for the division of the country into twelve districts, with an independent reserve bank for each district, was to prevent the concentration of funds in New York and their employment in Wall Street.

The Federal Reserve Banks are not permitted to make loans upon the security of stocks or bonds, excepting United States government obligations. The exception was primarily for the purpose of serving the financial needs of the government. The intention of the law was to make the reserve banks an additional resource for the regular industrial and commercial operations of the country, and available for that purpose only. The conditions imposed are intended to prevent the resources of the reserve banks from being tied up in permanent or long-time investments, and go so far in that direction that the banks are sometimes said to be unduly hampered in serving certain lines of industry, agriculture particularly, in which the regular turnover requires more time than is needed in the ordinary manufacturing and trading routine.

## No Lack of Funds

NEVERTHELESS, there has been no lack of funds for stock exchange trading since the Federal Reserve System got into action. One of the biggest markets ever known has been going now for more than a year, and the common explanation for it has been cheap money. Furthermore, it has been evident that in stock exchange circles a great amount of interest centered upon the Federal Reserve discount rate, and recently the action of the Boston reserve bank in advancing its rate on commercial bills from  $3\frac{1}{2}$  to 4 per cent threw the stock market quite off its equilibrium. It is natural that the question should be asked, why a change in the rate on commercial paper should offset the rate on collateral loans?

The answer is that there is no direct relationship between the two, and that the

reserve banks do not lend at all upon stock collateral, but the rate upon one class of paper has a bearing upon all other rates.

This has been illustrated in the last three years by the influence of a plethora of banking funds upon the interest rates and prices of bonds. Rates on commercial paper and upon long-term bonds are distinctly in different fields, but the scarcity of commercial paper and great increase in the lending power of the banks has caused the reporting member banks to invest about \$2,000,000,000 in securities since the early part of 1922, and when it is realized that these reporting banks include only about one-half of the banking resources of the country it will be seen that the use of bank funds in the security markets has been very important factor in that situation. Furthermore, the fact that the member banks have been able to employ so large an amount of funds in this manner has lessened in marked degree the pressure of funds in this banking field, and caused a rise of interest rates there in the past year.

In like manner, the demand upon the banks by the public for funds for investment in stocks and bonds has absorbed a very large amount of credit. From November 12, 1924, to November 11, 1925, the total loans by reporting member banks increased from \$12,872,000,000 to \$14,022,000,000, or by \$1,150,000,000, but excluding the loans on stocks and bonds, the increase was from \$8,240,000,000 to \$8,468,000,000, or only about \$228,000,000. Thus, as nearly as can be calculated from the bank reports, the increased demand for credit in the past year, as between bond and stock operations and commercial uses, has been in the ratio of \$9 for the former to \$2 for the latter.

## Speculative Demands for Credit

IT must not be thought from these figures that stock market operations are the principal factor in the money market, but during the past year conditions were favorable to rising prices in the stock market, and this caused a more rapid increase of loans in that quarter than in regular trade and industry. People borrowed for the purpose of buying stocks which they thought would go higher, and this buying of itself carried the market higher and stimulated more buying. The manner in which money or credit rushes to the stock market when an upward movement attracts general attention is no

different from the manner in which it rushes to the grain market, or to farm lands or to Palm Beach lots or to a new oil field, when a like movement is under way. The buying and selling of stocks, of grain, of farm lands, of town lots, of oil lands, is legitimate business, and speculation in all these kinds of property, in the sense of anticipating future and more or less uncertain profits, is legitimate, but may be overdone—may attract an undue amount of credit, may carry prices too high—and when this occurs the inevitable reaction will have ill effects outside the immediate interests concerned. For this reason, it is desirable that Federal reserve credit, which constitutes a reservoir especially intended to safeguard the general business situation, should not be drawn upon to support a speculative boom.

## Credit Cannot Be Kept in Watertight Compartments

HOW to prevent it, however, is a problem. Credit cannot be kept in watertight compartments, and it is not easy to prevent the demand for credit in different fields from influencing the credit situation in other fields. A member bank may not pass up to its reserve bank any loans secured by stocks and bonds, but it can pass up eligible paper, i.e., paper having its origin in commercial transactions, and lend the proceeds in the stock market. Although the reserve bank is not a party to the transaction and the liquidity and value of its own collateral are not in question, it is evident that in such cases its resources are indirectly thus drawn upon for employment in the speculative field.

Herein exists the roundabout relationship between the Federal Reserve discount rates and the stock market. There has been no expansion of credit in the commercial field in the past year which would call for an advance of the discount rate, but there has been a great expansion in the speculative field, and the demand for money there has not only raised interest rates on collateral loans but pulled up the rates on commercial paper. George W. Norris, governor of the Federal Reserve Bank of Philadelphia, in a recent statement, explaining the advance of the discount rate of that bank from  $3\frac{1}{2}$  to 4 per cent, said that in seventeen months the rate on commercial paper had advanced from  $3\frac{3}{4}$  to  $4\frac{1}{2}$  per cent, on bankers' ac-

ceptances from  $2\frac{1}{4}$  to  $3\frac{1}{2}$  per cent, on New York call loans from 2 to  $4\frac{1}{2}$  and 5 per cent, and the rate on time loans from 3 to  $4\frac{1}{2}$  and 5 per cent. The principal influence has been the competition of collateral loans.

It is obvious that with the member banks able to rediscount eligible paper at  $3\frac{1}{2}$  per cent and lend the proceeds on collateral security at  $4\frac{1}{2}$  or 5 per cent, the back door to reserve credit is open to speculative activities, and without doubt advantage has been taken of the opportunity during the past year.

If no attention was given to such diversion of reserve funds they might be drawn upon to a dangerous extent. It must never be forgotten that in the post-war boom the reserve banks were drawn into the inflation so far that when the chief need for their services arose they had little power of expansion remaining. That never should happen again. In normal times the resources of the reserve banks should be kept mainly in reserve for use when an emergency arises.

It is sometimes the case that member banks lend freely in the call market, or on time with collateral security, when the commercial demand is light, and later, when the commercial demand improves, find themselves obliged to make a choice between reducing this class of loans or resorting to the reserve banks. In these cases the immediate purpose of rediscounting is to supply commercial demands, but the final result is that reserve resources are drawn upon for outside uses. This is not objectionable, if the use of reserve credit is not immoderate, and it is even helpful to the extent that temporary demands upon the member banks are met without disturbance or sharp interest fluctuations. Reserve resources, however, should not be allowed to contribute to speculative excesses.

### The Situation in 1925

IN the past year the country has lost gold by an excess of exports over imports, to the amount of about \$175,000,000, which has reduced the reserve resources of the member banks, and yet in that time the reporting member banks have increased their loans, discounts and investments to November 4 by something over \$1,000,000,000. Evidently they have had to have help from the Reserve Banks in order to do it.

In the first six months of this year the total of loans, discounts and investments of the reporting member bank's changed as shown by the following figures:

#### Changes in Loans, Investments, Discounts

	January 7, 1925	July 1, 1925
Loans and discounts, gross:		
Secured by U. S. Government obligations.....	\$180,332,000	\$178,572,000
Secured by stocks and bonds.....	4,697,914,000	5,167,857,000
All other loans and discounts.....	8,222,019,000	8,029,008,000
Total loans and discounts.....	\$13,106,265,000	\$13,375,437,000
Total investments.....	5,554,763,000	5,516,562,000
Total loans and investments.....	\$18,661,028,000	\$18,891,999,000

	Loans and Investments Reporting Member Banks—All Districts												
	(In Millions)												
	41	102	54	75	72	36	100	33	25	69	49	67	723
Number banks Nov. 4.....	41	102	54	75	72	36	100	33	25	69	49	67	723
Boston	New York	Phila.	Cleve.	Rich.	Atlanta	Chicago	St. L.	Minn.	K. C.	Dallas	S. Fran.	Total	
Dec. 31, 1924.....	1,262.6	7,167.6	1,048.4	1,795.4	611.5	534.5	2,687.4	663.4	380.0	591.4	372.1	1,484.9	18,599.3
Nov. 4, 1925.....	1,371.5	7,268.8	1,099.6	1,929.4	652.0	625.1	2,848.6	675.4	362.1	603.6	395.9	1,656.9	19,489.1
Per cent change from Jan. 7.....	+105.5	+52.8	+50.8	+122.5	+37.6	+92.9	+158.9	+12.3	-16.3	+7.6	+22.7	+180.6	+828.1
	+8.3	+0.7	+4.8	+6.8	+6.1	+17.5	+5.9	+1.9	-4.3	+1.3	+6.1	+12.2	+4.4

As the fall season, when trade always increases, has approached, discussion and surmise began as to what would happen to the stock market if the banks should withdraw money from the stock market to meet the increased demands of trade, and as to what the Reserve Banks might do to the discount rates in order to check the tendency to rediscount commercial paper for the purpose of procuring money for stock market uses. Interest centered naturally upon the New York Reserve Bank, it being generally assumed that the demands of the market fell chiefly upon it. However, week after week passed without action by its directors. The Boston Reserve Bank was the first to move, raising its rate to 4 per cent, and it was followed by ten others, but up to this time the New York rate still stands at  $3\frac{1}{2}$  per cent.

### Policy of the New York Reserve Bank

According to the record, therefore, credit obtained from the New York banks has not been an important factor in the stock market activity, and this is one reason why the New York bank has not felt called upon to attempt to control it.

Another reason has been that the New York bank has had to consider its relation to the international situation. A rise in the discount rate here tends to attract gold from abroad, and particularly from London, with which it has most important relations. The Bank of England has lost a large amount of gold in the last three months, and in view of the fact that its resumption of gold payments is still something of an experiment, these losses have occasioned some uneasiness. The New York bank has not wanted to do anything that would make the London situation more difficult, and, furthermore, New York does not desire gold imports. They would do more to promote speculation and inflation than anything else. If an advance of the New York discount rate should precipitate more gold imports it would be a failure as a means of checking the growth of loans.

It will be seen, therefore, that the New York Reserve Bank has had to weigh other considerations in addition to those influencing the Reserve Banks of the other cities.

### Functions of the Reserve Banks

SURVEYING the entire subject, it is evident that the Reserve Banks cannot ignore the interest rates prevailing in the open market, but must take account of the general financial and business situation, including speculative tendencies which threaten to cause an undue degree of credit expansion. The reserve authorities, however, approach a general discussion of the subject with some misgiving, apparently fearing that the public will be jealous of any seeming attempt on their part to exercise control over the credit situation.

George W. Norris, from whom a quotation is made above, has defined the responsi-

#### Member Banks in Leading Cities

	(In millions of dollars)		In New York City	Outside New York City	In N. Y. C.	Outside N. Y. C.
	Jan. 14	Aug. 12	Jan. 14	Aug. 12	N. Y. C.	Outside N. Y. C.
Loans on securities .....	2,009	2,047	2,869	3,211	+38	+342
All other loans .....	2,345	2,171	5,900	5,942	-174	+42
Investments .....	1,888	1,791	3,669	3,691	-97	+22
Total loans and investments.....	6,242	6,009	12,438	12,844	-233	+406

Increase (+) or decrease (-).

sibility of the reserve authorities in this respect, as follows:

"It is not one of the functions of a Federal Reserve Bank to determine whether prices of either stocks or commodities are too high or too low, or to make any effort to raise or lower such prices. It was never the intention of Congress to give any such power to the System. It would be a very dangerous power to put in the hands of any man

(Continued on page 448)

# The Reserve Banks as Bankers for the Government

By W. RANDOLPH BURGESS

Assistant Federal Reserve Agent, Federal Reserve Bank of New York

**How the Reserve Banks Take Care of the Business of a Big Customer, Functioning Both as Banker and as Subtreasuries, Steadying the Money Market and Keeping It Free From Panics. Character of Transactions. Force of 750 Needed to Handle Them.**

THE United States government is the largest customer of the Federal Reserve Banks. It frequently deposits in these banks as much as \$100,000,000 in a single day and it frequently draws checks totaling even larger amounts. The volume of Treasury operations with the Reserve Banks is illustrated by Table 1, showing in summary form the debits and credits to Treasury account at the Federal Reserve Bank of New York for the month of September. The nature of the transactions may be gathered by running one's eye down the items listed in this table.

TABLE 1  
Treasurer's Account Second Federal Reserve District Month of September, 1925

DEBITS	
Checks and Warrants Paid .....	\$81,234,000
Coupons Paid .....	39,548,000
Treasury Notes and Certificates Redeemed .....	127,681,000
Funds Transferred from New York..	49,952,000
Purchases account Treasury, Various Bureaus .....	53,455,000
Special one-day Certificates Purchased	278,000,000
Payment to Republic of Colombia.....	5,000,000
Total Debits .....	\$634,870,000
CREDITS	
Income Taxes .....	119,695,000
Internal Revenue Receipts .....	49,477,000
Other Receipts .....	28,722,000
Withdrawals from Government Depositories .....	3,437,000
Funds Transferred to New York .....	155,987,000
R. R. Payments and Sale of Railroad Notes .....	2,312,000
Sales account Treasury Various Bureaus .....	778,000
Special one-day Certificates Redeemed	278,000,000
Total Credits .....	\$638,408,000

The following comments may be made concerning certain of the items in the table:

**Checks and Warrants.** Treasury checks in payment of pensions, war risk insurance, or any other Treasury disbursements, are payable at any one of the twelve Federal Reserve Banks or their twenty-three branches. These checks come through in enormous volume. The government check division of the Federal Reserve Bank of New York, for example, handles about 36,000 separate government checks each day and the value of these checks is in the neighborhood of four million dollars. It takes a force of thirty-one people to handle the work. Checks and warrants paid by the twelve Reserve Banks in 1924 totaled over four billion dollars.

## Over Fifty Million Coupons Paid

The Reserve Banks also cash the coupons of government bonds. The bulk of this

work is done when the interest becomes due on the fifteenth of certain months, but thousands of dollars worth of coupons are presented for redemption each day at each of the Reserve Banks. During 1924 over fifty million separate coupons were paid with a value of three quarters of a billion dollars.

**Treasury Notes and Certificates Redeemed.** Government securities of all kinds are redeemed at the Federal Reserve Banks or branches when they mature and this redemption is such a large transaction when it occurs that it not only places a peak-load of work on the Federal Reserve Banks at the quarterly tax dates, but causes exceedingly interesting movements in the money market, which will be described later on in this article. Redemptions throughout the System amounted to two and a half billion dollars in 1924.

**Funds transferred from New York.** Through the private telegraph wires of the Federal Reserve Banks the Treasury transfers millions of dollars from one part of the country to another to utilize its available funds to the fullest advantage in meeting its engagements in all parts of the country.

**Purchases for account of Treasury.** There are a number of government agencies which have funds to invest, such as the Veterans' Bureau and the Alien Property Custodian. In addition, the Treasury from time to time buys government securities in the open market for account of the sinking fund for the government debt. All of these purchases are handled by the Federal Reserve Banks, which, through their close association with the money markets, are able to arrange these large transactions at satisfactory prices and without disturbing the markets.

**Special Certificates.** To make unusually heavy payments on tax dates the Treasury overdraws its account at the Federal Reserve Banks. The overdraft takes the form of a purchase by the Reserve Banks of a one-day special Treasury certificate of indebtedness, which is redeemed by the Treasury at the end of each day, either out of funds which have become available during the day or by the issuance of a new certificate, usually for a smaller amount. It is only at the quarterly tax dates, on March 15, June 15, September 15 and December 15, that this special borrowing by the Treasury becomes necessary for a few days.

MOST of the other items in the summary table of the September transactions with the Treasury do not require explanation in detail. The table clearly indicates the wide range and the large volume of operations which are carried forward by the Reserve Banks in their capacity as bankers for the government. There are still further activities, which do not appear in Table 1, including the issue of new securities; the exchange or transfer of registered and coupon securities, amounting for the System to two and a half billion dollars a year; the holding in safekeeping of over two billion dollars of securities; and the operation of a system for the telegraphic transfer of short term government securities. An analysis of the personnel and expenditures of the Federal Reserve Bank of New York indicates that out of a total staff of 2400 people the full time of more than 200 is now employed in handling banking transactions for the United States Government. An analysis of the expense account shows that more than 10 per cent of the bank's entire expenses, or in the neighborhood of \$650,000 a year, is fairly chargeable to Treasury banking business. For all the Federal Reserve Banks the number of workers handling such transactions is about 750 and the annual expense is probably over two million dollars.

Some years ago the Federal Reserve Banks were reimbursed by the Treasury for this expenditure, but in 1921 by agreement with the Treasury this ceased to be the case. There is now reimbursement for only certain specified expenditures in connection with new security issues, and nine-tenths of the work done for the Treasury is done without charge. With all its vast turnover of funds, amounting for the system as a whole to between half a billion and a billion dollars a month, the Treasury Department carries an average balance with the Reserve Banks of about thirty million dollars, a smaller balance than is carried by some of the large member banks. Treasury deposits thus have a rate of turnover in the neighborhood of twenty-five times a month or 300 times a year.

## Earlier Experiments

THE United States Government had been looking for a satisfactory banking agency for a long time before the inauguration of the Federal Reserve System and many experiments had been tried. As a



*The taking over of the work of the Subtreasuries by the Reserve banks means among other things the counting of 10,000 tons of coin a year*

bank customer the government is exacting in its requirements, carries on an enormous volume of banking transactions, keeps a small balance, and objects to paying a service charge. Any banking agency for the government must meet four requirements:

1. It must be absolutely sound
2. Transactions with it must involve no favoritism
3. It must transact operations efficiently and rapidly
4. Its transactions must not disturb the money market

Not only in the United States but in foreign countries as well the problem of the relationship between the state and the money market has been almost, if not quite as troublesome, as the relation between the state and religion. The relation of state and money market cannot be settled in the same way as the problem of state and religion, for it is impossible to draw a line of cleavage between the state and the money market as long as the state must raise revenue and pay bills.

In this country we tried divorcing state finance from the money market. After some preliminary experiments during the first half of the nineteenth century in various forms of government banking practice, a plan was set up in 1846 called the Independent Treasury system, and designed to separate state finance from the money markets as completely as possible. The government decided that it would be its own banker and have nothing to do with the privately organized banking institutions of the country. Government banking offices were set up in the six cities of New York, Boston, Charleston, St. Louis, Philadelphia and New Orleans, and at those offices the government collected revenues and paid its bills. Under this system revenues had to be paid in specie and disbursements were likewise made in specie. Government balances were locked up in cash.

The history of the succeeding sixty years

is a record of the gradual breakdown of the Independent Treasury system. The scheme could not endure. It received its first serious setback at the outset of the Civil War, when the attempt to collect in specie the funds which the Treasury required to conduct the war immediately forced private banks to suspend specie payment. Some way out had to be discovered before the conclusion of the war and the result was the establishment of the national banking system, which proved itself, according to Hugh McCullough, Secretary of the Treasury at the conclusion of the war, "a vast improvement upon the systems which it superseded and one admirably adapted to our peculiar form of government." The national banks aided the government greatly in floating war issues and generally handling the nation's funds. Before the end of the war a substantial part of the Treasury balance was maintained on deposit with the national banks.

### Relations With the Money Market

FROM that time forward the Treasury was no longer completely independent, but certain of its funds were continuously on deposit with the national banks. The proportion of the Treasury funds so deposited varied greatly from time to time, and each succeeding Secretary of the Treasury had his own views as to the propriety of these deposits under the Independent Treasury law, and the amount of deposits reflected these varying views. Diagram 1 shows over a long period of years where the Treasury's balances were deposited on June 30 of each year. The changes in these figures are important because under the scheme which existed up to the time of the establishment of the Federal Reserve Sys-

tem all balances held by the Treasury itself and not placed in depository banks represented coin or currency withdrawn from business use. In the Independent Treasury we had an agency which from time to time drew money out of the market or poured money into it, frequently without any particular regard to the effect of this action on the money market. In judging the effects of this action it should be noted that the funds so withdrawn from the market or poured into it represented reserve funds, that is, they were specie or currency. And, of course, the effect of changing the volume of reserve funds is multiplied many times when it is translated into the country's structure of bank credit.

When the National Monetary Commission made its report in 1911 it included an analysis by Professor David Kinley of the University of Illinois of the effects on banking and the money markets of the Independent Treasury system. In a careful statistical study Professor Kinley demonstrated how the changes in the balances held by the Treasury Department in its own vaults were immediately effective in lowering or raising the available reserve funds of banks and hence tended to result in abrupt changes in money conditions.

We find in the reports of a number of Secretaries of the Treasury as we go back over the years of the Independent Treasury, a recognition that the system was placing the Treasury Department in a position of great responsibility with respect to the money market. The Treasury was forced into the position of assuming certain functions of a bank of issue. Even as early as 1866 we find the following paragraph in the report of the Secretary of the Treasury. In discussing the course which the Secretary has pursued with regard to the gold in the vaults of the Treasury, he says: "He has permitted it to accumulate when the use or the sale of it was not necessary for paying government obligations, or to prevent commercial panics, or successful combinations against national credit; and he has sold whenever sales were necessary to supply the Treasury with currency, to ward off financial crises, or to save the paper circulation of the country as far as practicable from unnecessary and damaging depreciation. For making sales he alone is responsible."

In the reports of the Secretary of the Treasury we frequently find phrases like the following, quoted from the report for the year 1879: "It is becoming apparent that should the withdrawal of funds continue into the Treasury the market would be affected unfavorably. . . . ."

### Forced to be Financial Dictator

IT was in periods of financial crises that the Treasury Department was most frequently forced to assume the role of financial dictator. The Treasury came to the rescue of the money market by depositing Treasury funds in banks, or buying government securities in the market in practically every one of the important financial crises. It was at times the regular practice of the Treasury to put money out in the Fall when credit demands were greatest, and draw it in again in the early Winter.

There are many difficulties with this type

of dependence of the money markets on the Treasury for support. The Secretary of the Treasury is one of the President's political family and policies change with each change of administration. The Secretary, moreover, had a dual responsibility. His primary task was to administer government finance with regard to the provisions of the law and with the maximum of economy and efficiency. To the extent that his decisions were based on these motives, the effects of his action on the money market tended to be subordinate and secondary. Moreover, as a politically appointed officer, the Secretary of the Treasury was under constant criticism in dealing with individual depository banks; the cry of favoritism was constantly raised.

To the credit of our Secretaries of the Treasury it must be said that under these difficulties and working under the restrictions to which all government departments are subject, their record is surprisingly good. The trouble was more with the machinery than with the operators.

What was needed was a middleman between the Treasury Department and the banks of the country, a thoroughly trustworthy agent without political affiliations, and with permanent tenure; in close contact with the money market but not a part of it. This is exactly what the Federal Reserve System provided. The Reserve Banks are not government banks because all of their stock is owned by the member banks and six of the nine directors of each bank are elected by the member banks. The public interest is guarded by the supervision over the banks by the Federal Reserve Board, a body appointed by the President. This Board appoints three of the nine directors of each Reserve Bank. The Reserve System, moreover, is removed by the terms of its basic legislation from any profit-making motive, such as must necessarily determine the activities of private banks.

### A Typical Instance

THE way in which the Federal Reserve System through the nature of its organization carries through large financial operations for the government without serious disturbance to the money market, may perhaps best be realized by a typical instance. The facts are shown most vividly in the quarterly tax day operations, and to make the illustration still more definite we may take as a typical example the operation which took place in New York on and immediately after the latest quarterly tax day, which fell on September 15, 1925. On that date Treasury certificates were presented at the Federal Reserve Bank of New York for redemption in an amount totaling \$122,150,000. There were also presented to be cashed coupons on Liberty Bonds to the value of \$30,544,000. Checks came in to be cashed to a value of more than \$4,000,000 and thus in the aggregate the Treasury had to pay out on that day about \$157,000,000. On the other side of the ledger there was a small balance in the Reserve Bank and in depository banks, and income taxes for the New York district were due to be paid on September 15. It is a long piece of work sorting income tax checks and collecting them from the banks on which they are drawn, and usually takes several days. As



*About 36,000 government checks are handled each working day by the Government Check Division of the Federal Reserve Bank of New York*

a matter of fact income tax checks were actually collected as follows:

September 15.....	\$11,924,000
September 16.....	49,370,000
September 17.....	21,324,000
September 18.....	13,179,000
September 19.....	6,022,000
Total.....	\$101,819,000

We see from these figures that there had to be paid out for Treasury account the difference between the 157 million due and a small balance on hand. In order to cover the difference the Federal Reserve Bank advanced funds to the Treasury by buying from it on September 15 a one-day certificate of indebtedness for \$148,000,000. In the succeeding two days other certificates of this character, but in smaller amounts, were issued to replace the first one as receipts from income tax checks became available.

The Treasury utilized another source of income as well by transferring money from other Federal Reserve districts to New York. It is an interesting fact that in New York the amount of money that the Treasury has to pay out at the tax day to redeem certificates of indebtedness and pay interest is always larger than the amount of money received in income taxes. This is because New York is an investing center and considerable amounts of out-of-town funds are kept here for investment in such securities as Treasury certificates and very large amounts are presented for redemption on each tax day. As a consequence the Treasury finds itself with a deficit in New York and meets the deficit by transferring funds to New York from other districts where income tax payments exceed redemptions. In September the amount of funds transferred to New York in this way between the fifteenth and the nineteenth of the month was over \$100,000,000. Thus by the collection of income tax checks and by the transfer of funds from other districts the Treasury was able at the end of the third day to

pay off the Federal Reserve Bank for its temporary advance.

As far as the effect on the money market was concerned, extra funds were thrown into the market for a day or two. But member banks utilized these funds by paying off part of their indebtedness at the Reserve Bank. As income tax checks were collected, member banks were again forced to borrow to maintain their reserves. This large financial operation of the government passed off without any marked effect on the money market, and within a few days the banking situation was restored to its previous position.

One other important phase of the September 15 operation was the sale by the government of new certificates of indebtedness to give the government the funds it required to finance itself until the next tax period. This sale of securities was not mentioned in the preceding paragraph because it does not affect the money market in any way. A plan was worked out in 1917 by which the banks which purchase these securities for themselves or their customers do not pay for them immediately, but instead give the government a deposit credit on their books, on which two per cent interest is paid. This deposit is drawn down gradually as the Treasury actually requires her funds to pay out again.

A complete picture of all shifts in funds between the Federal Reserve Bank and the market during such a time as the tax period would require much more space than this article allows. The situation has been sketched in outline to indicate the way in which even very large Treasury operations may be transacted through the Reserve Banks without any marked effect on the money market. The intimate relation between the Federal Reserve country-wide mechanism and the money markets of the country, together with the power of the Reserve Banks to extend additional credit to the government or to member banks when necessary.

*(Continued on page 453)*

# Directors and the "One-Man" Bank

By F. S. WETTACK

Cashier, First National Bank, Coffeyville, Kansas

## Business is so Interlocked in the Average Town That Personal Interests are Likely to Influence the Judgment of Directors in Passing Bank Interests Impaired by Outside Interests Upon Applications for Credit. The Responsibility of the "One Man".

**A**FAVORITE theme with officials of national and state banking departments is that of having all banks actually directed by boards of directors.

Their complete unanimity is shown by the following recent expressions of (1) a national bank department official, (2) a supervisor of banks of an Eastern state, (3) a chief bank examiner of a Middle West state, and (4) a superintendent of banks in a Southern state:

- (1) "An active and painstaking board of directors is the best assurance for safety that a bank can have. I do not believe one can find a dozen banks which, prior to the beginning of their embarrassment, were supervised by an active, alert and conscientious board of directors."
- (2) "The organization of a board of directors of any banking institution is the most important factor in the operation of the business of the association. Show me a bank properly supervised by a responsible board of directors, and I will show you a good and safe bank."
- (3) "Well directed efforts of directors are the backbone of every successful banking institution."
- (4) "The duty of a director is to audit the bank's books and records. Banks that had to close their doors, could and would have avoided the trouble, embarrassment and losses, had the directors of those banks realized their responsibilities. It is my firm conviction that there is no one thing more essential to safe banking than strict and constant supervision of its affairs by the bank's directors."

With the expressions above quoted, issue cannot be successfully taken, yet the practical application of these rules presents many difficulties.

The business interests of the average town are interlocked. The substantial business men are usually the chief owners of their respective lines of business. Nearly all are stockholders in other concerns. Most of the successful lawyers, doctors, and other professional men are interested financially in various local ventures. Credit and other business relations exist among them. These relations have created money obligations and still other obligations. Friendships and antagonisms have developed. Half of the business concerns have a too small stockholders' investment. Some of these enterprises are in the experimental stage. Some are operating too largely on borrowed capital. The directors of the bank are chosen from the active and alert business men of this average community. Usually they have small stockholdings in the bank. Will the bank's complex credit and other problems be successfully solved by a board of directors recruited under the above conditions?

## Lack Credit Judgment

**T**HE outstanding problem in a safe and profitable bank administration is credits. Embezzlement is not always the chief factor in bank failures. Where it is, usually

unwise credit practices have created the conditions inviting the embezzlement.

An individual owning at least ten shares of bank stock, upon being elected a bank director does not necessarily become a qualified banking pilot. Such a view ignores the great truth that the successful granting of bank credits is a highly specialized activity. The public, as well as bank supervisors, need to be educated to this great principle. There is no sound reason to believe that the successful doctor of medicine can render valuable counsel on a major bank credit operation. The experience and contacts of the doctor have developed a temperament that by no means qualifies him as a competent credit engineer.

Many bankers will testify that the successful lawyer is not a competent credit guide. Banking is largely a matter of making decisions. Lawyers have their maximum activity in carrying out the decision of others. The advice of the lawyer upon credit problems is likely to be as faulty as the counsel of the banker upon pure legal problems. Moreover, most successful lawyers are employed by corporations and individuals who are frequently large users of credit. The lawyer's legal employment with these clients is always more profitable than his compensation as bank director and his bank stock dividends.

## Different Credit Problems

**A**MERICAN'S credit problems are based on entirely different principles than the credit operations of a bank. The two activities have little in common, and there is no more sound reason to rely upon the merchant's judgment on bank credit operations, than there would be to send the banker to market to purchase the merchant's stock of goods. Either course has the elements of disaster.

It is difficult to discover why the work of a successful farmer should qualify him to pass on a bank's credit operations. The farmer's isolated activities seldom develop acuteness of judgment upon either general business or credit questions.

It is not necessary to further apply the above reasoning to the entire personnel of the average board of directors. Can a bank rely on the aggregate counsel of seven or nine individuals possessing equal ignorance of banking problems?

Thus far only the lack of technical credit knowledge of the average board of directors in the average bank has been emphasized. A more serious defect in director management will now be stressed.

**T**HREE outstanding causes of bank failures are:

Granting credit too liberally, usually by an honest and well meaning board of directors who are ignorant of bank credit principles. And where failure is attributed to other causes, usually an analysis will show that the practices which finally closed the bank had their birth in unwise credits, granted in good faith by unskilled directors.

Excessive lines of unmerited credit granted to directors and their outside interests. Such loans are usually made honestly and in good faith by the directors. Their self interest submerged any analysis of the merits and defects of the loans. Even if the amounts of such loans do not directly cause the bank's failure, it frequently provides the soil where the seeds of embezzlement and kindred practices are sown.

Embezzlement and like practices are, in the popular mind, the chief cause of bank failure. Embezzlement is rarely the first great cause. Almost without exception a large volume of worthless notes produces the pressure which causes the banker to resort to embezzlement.

Nearly every banker will testify that it is not difficult for a banker to detect elements of hazard in proposed loans. Few country bank loans meet every requirement. An analysis of the merits and defects will show whether the proposed loan can be classed as a proper banking risk. How then do loans which at their inception are not proper risks find their way into a bank's note case? Frequently the connections of the borrower influence the granting of the defective credit. Such connections are frequently, directly or indirectly, with one or more of the bank's directors. The surfaces and underground alliances of a community's business interest are always working.

The authorities stressing director control seem to have the impression that there exists in each community many individuals possessing the qualifications of the ideal director. From this group a bank can recruit its directors who will direct. The qualifications would seem to be: financial responsibility; intensive knowledge of principles of bank credits; no interest nor connections which may require excessive credit; a mature business judgment based on successful business career; no antagonisms based on such business activities; the unselfish disposition to give the bank, for a nominal compensation, the benefit of above conditions.

## Personal Prejudices Come In

**S**UCH types are scarce. All active business men have their own business battles. This has brought them friends and enemies. The friends are usually cold, and the enemies warm. When such business men become directors the bank is usually adversely affected by these friendships and antagonisms.

*(Continued on page 451)*

# Work of the American Financial Commission in Chile

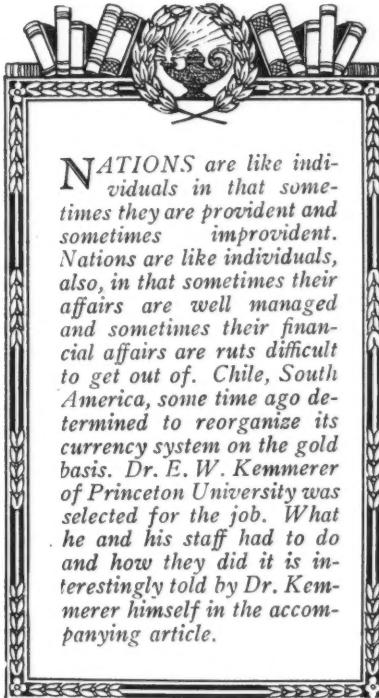
By EDWIN WALTER KEMMERER

Professor of Economics and Finance in Princeton University and President of the Commission

## Various Steps by Which Chile Has Been Placed in the Ranks of the Gold Standard Countries. Wide-Reaching Reforms Inaugurated, Among Them Establishment of Central Bank of Chile Which Probably Will Open for Business January 1, 1926.

**I**N the spring of this year the government of Chile invited the writer to organize a commission of American financial experts, similar to the one he had organized two years previously for the Republic of Colombia, and to come to Chile for the months of July and August in order to advise the government with reference to problems of financial reform. The commission was officially designated as the *Mision de Consejeros Financieros*, the same name as that given to our American Financial Commission in Colombia in 1923, and it was the work of this latter Commission in Colombia that led to the agitation in Chile which eventuated in the appointment of the Commission. Popularly the Commission was known simply as the Kemmerer Mission.

The Commission consisted of five members and was accompanied by three secretaries. The writer in addition to his duties as president of the Commission devoted his time largely to the problems of the establishment of the gold standard and the creation of the new central bank of issue; Professor Harley L. Lutz of Leland Stanford University specialized in problems of taxation; Howard M. Jefferson, an officer of the Federal Reserve Bank of New York, gave his attention particularly to questions of general banking organization and supervision; Joseph T. Byrne, formerly a member of a firm of public accountants in New York and later Collector General of Customs in Peru, served as the expert in problems of accounting and fiscal control; while William W. Renwick, at present the Fiscal Representative of the Republic of El Salvador, was the expert in problems of customs administration. Henry H. West, who had been secretary of the American Financial Commission to Peru in 1923, was general secretary to the Commission. On the arrival of the Commission in Chile it obtained the services as consulting engineer of G. Van Zandt, Professor of Engineering in the University of Southern California, who is an expert in railroad transportation problems and happened to be in Chile at the time doing research work in this field. Immediately upon the arrival of the Commission in Chile, the government provided it with a large staff of helpers, including lawyers, accountants, draughtsmen, translators and clerical assistants. Most of these men were Chileans.



*NATIONS are like individuals in that sometimes they are provident and sometimes improvident. Nations are like individuals, also, in that sometimes their affairs are well managed and sometimes their financial affairs are ruts difficult to get out of. Chile, South America, some time ago determined to reorganize its currency system on the gold basis. Dr. E. W. Kemmerer of Princeton University was selected for the job. What he and his staff had to do and how they did it is interestingly told by Dr. Kemmerer himself in the accompanying article.*

**T**HE Commission was received with enthusiasm by all classes of people from organized labor to the higher officials of the government and of business. The public took very seriously the work that was being undertaken and all classes, both official and unofficial, cooperated splendidly.

Rarely, if ever, in the history of public finance has a commission of this kind had a better opportunity for service. Financial conditions in Chile were such that thorough-going reforms were urgent, and the public appreciated this fact. The revolution of the preceding fall had thrown overboard the old Constitution of the Republic, and the new one, which has since been adopted, was being drafted at the time of our arrival and we were privileged to help in the preparation of its financial clauses. There was no Congress and there would be none until one should be provided for by the new Constitution which would not be effective until

the period of our stay in Chile would be completed. The supreme legislative and administrative authority for the time being resided in President Alessandri and his Cabinet, who, under the justification of an emergency necessity, had the legal authority to pass laws, which were known as decree laws. The President and all of his Cabinet gave strong support to our work. Since the recent revolution the military group and the naval group have exercised a strong influence in Chilean national administration and the leaders of these groups likewise cooperated splendidly with us at every opportunity.

The Commission found that Chile was on a depreciated and unstable paper money basis, and that it had been so continually, except for three years, since 1878—the longest paper money regime in recent times, I believe, to be found in any South American country. The value of the peso had declined from an average gold value of about eighty-one cents in 1878 to about 11½ cents for the first seven months of 1925. This long period of decline, punctuated frequently by periods of violent fluctuations, had had the usual accompaniments of an unstable currency, namely gain of the debtor classes at the expense of the creditor classes, disturbance to foreign trade, encouragement to speculation at the expense of conservative business, and injustice to the laboring people of the country whose wages failed to increase as rapidly as the value of the peso fell. And yet, strange as it may seem, the government had been accumulating for over a generation a large gold reserve, and, for years, had had a gold reserve sufficient to have stabilized its currency firmly on a gold basis if it only had followed the advice of its own leading economists and gone ahead and courageously used the gold it had.

### Its Gold Reserve Useless

**I**TS enormous gold reserve was practically useless because most of it was being hoarded by the government rather than used for currency redemption purposes. In this respect its policy has been duplicated in a number of other countries in recent years, including its own neighbor, the Argentine Republic. For years the paper money of Chile had been issued only by the government, the last bank notes having been retired in 1897; and the circulation of paper money at the time of our arrival was some-

thing over three hundred million pesos. There was no central bank in Chile, although the establishment of such a bank had been agitated for many years and a number of plans had been proposed and had progressed very far towards enactment. There was no general banking law in the country and the commercial banks were operating under a very incomplete special law, enacted in 1860, which had received comparatively few amendments since that date. The negotiable instruments law of the country was on the whole a very good one, but was defective in a number of particulars and these defects were causing much trouble and criticism in business and financial circles.

These currency, banking and credit difficulties were among the first problems the American Commission tackled.

### Quickly Made Law

OUR project for the establishment of the Central Bank of Chile was submitted to the government on August 12 and on August 21 it became law, practically without modification. Subscriptions to the stock of the new bank amounting to about twelve million pesos have already been received, the board of directors has been elected and the organization of the bank will be completed shortly. The bank will probably open for business by January 1. It is a modern central bank of issue and rediscount with limited powers of dealing with the public. In its organization and function it is something of a cross between the central bank of continental Europe and our own Federal Reserve Banks. It is more nearly like the Bank of the Republic of Colombia than any other central institution. The stock is owned chiefly by the other banks in Chile, all of which were compelled to subscribe to an amount equal to 10 per cent of their own respective capitals and surpluses, but the stock is owned in part also by the government and by the public. The bank will be controlled by a board of directors of ten members, three appointed by the president of the Republic, two by the national banks, one by the foreign banks operating in Chile, two by commercial and agricultural societies, one by organized labor, and one will be elected by the stockholders at large. The bank will have the sole right of note issue in the Republic for the period of its charter, namely fifty years, and will assume responsibility for all of the outstanding government notes the day it opens for business. The government's large gold reserve will be transferred to the bank. From the beginning the bank's own notes and all the government notes which it is to take over will be redeemable on demand in gold or gold exchange. The bank will open with a gold reserve of over 100 per cent against all the outstanding notes and will be required to hold a normal minimum reserve of 50 per cent against notes and deposits, part of which it will hold in Chile and part on deposit in foreign financial centers. The bank will be the fiscal agent of the government and the government will participate in its profits. The law limits very narrowly the government's power of borrowing money from the bank.

The new monetary law recommended by the Commission was enacted September 16, with some minor modifications of the

Commission's recommendations not acceptable to the Commission. This law was later repealed and a new law embodying practically without change the Commission's recommendation was enacted on October 14. This new monetary law placed Chile squarely on the gold standard, with its mint open to free and gratuitous coinage of gold, and with all restrictions on the exportation and importation of gold removed from the date on which the new Central Bank opens for business. The monetary unit of Chile will consist of a gold peso containing 0.183057 of a gram of pure gold, which gives it a gold content equivalent to that of six-pence of British gold coin, or to about 12.17 cents of United States gold. The law changes the fineness of Chilean gold coins from the British fineness of .916 $\frac{2}{3}$  to the more widely used decimal fineness of .900, which is employed by the United States. The new gold monetary unit of Chile representing the rate of conversion of the paper money recommended by the Commission is very close to the gold value of the paper peso at the time the law was enacted and likewise to its average gold value as measured by exchange rates over a period of four years. Prices and wages in Chile had been fairly well adjusted to approximately this 6 pence rate, so that its adoption caused no disturbance to the economic life of the country.

### Creating the Condor

A MONETARY unit, however, so low as approximately twelve cents in United States money, was considered by the Commission to be inconveniently small for the permanent use of a rich and growing country like Chile and, with an eye to the adoption of a more convenient unit in the future, the new monetary law provides that ten pesos shall constitute a monetary denomination to be called the *condor*, that the denomination condor shall have equal recognition with that of the peso in all contracts in the designation of prices, wages and taxes, and that on all gold coins, all denominations of paper money and on the five peso silver coin the value shall be expressed in both pesos and condors. By this means it is hoped gradually to educate the public as to the meaning of this new denomination, with the expectation that in time it will become under the pressure of popular demand and custom the legal monetary unit of Chile, the denomination of the peso becoming ultimately merely the "dime" of the new unit. No effort, however, is made to force this change and the use of the new denomination is entirely optional with the public.

The new monetary law provides for a new system of silver coins, the largest denomination of which will be five pesos or half a condor. All of the new silver coins will be of the same millesimal fineness (.720), and the coins of the different denominations will all be of weights proportionate to their respective values. By this plan the Chilean Mint will be able to use the same mixture of silver and alloy for the coinage of all the different denominations of silver coins, and a given value in all of the different denominations respectively will have the same weight—a fact which will facilitate hurried and approximately correct counting by banks, government treasuries and the like through the use of the balancing scales.

The new coinage law is now in effect, but the paper money of the country will not be convertible into gold or gold drafts on demand until the new Central Bank to which the work of conversion is entrusted shall open for business, which will probably be about January 1. For some months, however, the Chilean exchange has been at or above the new gold par, as expressed by the foreign money value of the peso, and, with the assurance of convertibility on demand at the time of the opening of the new bank, there is every prospect that exchange has already become stabilized at the new gold value.

### Half a Century of Inconvertible Paper Money

BEGINNING with the year 1926 Chile, therefore, after almost a half century of inconvertible paper money (punctuated by only three years of the gold standard) will join the ranks of the gold standard countries. She is the third South American country to return to the gold standard, the other two being Venezuela and Colombia.

The last week in September the government of Chile enacted into law the general banking bill recommended by the Commission. The bill was enacted exactly as recommended. This is Chile's first general banking law. It places limitations on the activity of commercial banks, restricting them to the field of legitimate banking in accord with sound banking principles and at the same time with due regard to the peculiar economic conditions of Chile. There is a minimum capital requirement, which minimum as in the United States varies with the size of the city. There is also a limitation on the ratio between capital and surplus and liabilities to the public, so that as liabilities to the public increase beyond a certain point, capital and surplus must likewise be increased. There is a requirement of a minimum cash reserve of 20 per cent against sight deposits, and 8 per cent against time deposits, and this reserve may be kept either in the bank's own vault or as a deposit in the Central Bank. There are careful restrictions on the character of the loans permitted. Branches of foreign banks operating in Chile are given the same privileges and placed under the same restrictions as the native banks. In this respect Chile is much more considerate of some of her neighbors, such as France and the United States, than they are of her.

The law makes provision for a superintendent of banking, with duties similar to those of the United States Comptroller of the Currency, with full power rigorously to inspect the banks. The Commission in the report that accompanied this bill recommended that the salary of the Superintendent of Banking be high enough to attract a man of the first calibre, namely 100,000 pesos, which is a high government salary for Chile, and that the man so appointed be sent to the United States, to study the system of banking inspection here and to take back with him an experienced American bank inspector to assist in establishing the machinery of bank supervision. A large part of the success of the new general banking law and indirectly of the

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# “A System of Liquid Productive Credits”

By A. C. MILLER

Member of the Federal Reserve Board, Washington, D. C.

## How the Scope of the Federal Reserve System Has Increased. Set Up to Aid Industry, Agriculture and Commerce. No Bank Which Is Supplying Credit for Speculative Purposes Has a Proper Status as an Applicant for Reserve Bank Accommodation.

**O**RIGINALLY conceived as a system of elastic bank note issues and reserve credits to overcome the disabilities from which our banking system formerly suffered because of the rigid provisions governing reserves and restricting note issues, the Federal Reserve Banks, by force of the unprecedented conditions growing out of the World War that have shaped their development along broader lines, have had to form a larger conception of their function in the country's credit and economic system, to give at all times a firm basis of strength and health to the country's credit organization so far as it lies in the power of the Federal Reserve, and through the wise and intelligent exercise of this function to give steadiness, stability and strength to underlying business conditions.

It is more widely recognized now than ever before what a vital and shaping influence credit is throughout the whole economic system. The good functioning of trade, agriculture and industry, experience has demonstrated, can be greatly aided by good functioning of the Federal Reserve System. The good functioning of the Federal Reserve System means that the current productive industry of the country shall be at all times supplied with all the credit it needs from the Federal Reserve Banks to meet its legitimate operating requirements on the lowest terms consistent with economic safety. This statement needs no extended argument. But the American public does not yet fully understand that at times when industry and trade through excessive optimism or speculative enthusiasm are getting into a state of feverish activity they must not get the credit facilities of the Federal Reserve Banks on too easy terms—that is, on terms so low as to encourage needless borrowing and invite inflationary developments. While credit wisely extended can do much in a healthful way to stimulate, the dangers of overstimulation can never safely be lost sight of.

### Prejudice Against Variable Discount Rates

**T**HREE is a prejudice of long standing in the United States against variable discount rates. This prejudice constitutes one of the difficulties in the administration of the Federal Reserve Banks. The dis-

count rates of central banks are made to be moved. This is well understood in England, where the Bank of England for decades has employed the changeable discount rate with marvelous effect in giving stability to the British banking and credit system. The banking and business public there, before the World War, understood very accurately the basis of the Bank of England's discount policy and the meaning of changes of the bank's official rates. There resulted from this a cooperation between the bank and the business public. The success of the British banking and credit system was largely due to this intelligent cooperation.

We may expect that in time a similar situation will exist in the United States. As the Federal Reserve System itself more fully works out its guiding and operating principles and as these come to be understood and accepted by the business public, we may expect to see the prejudice against changes of discount rate and other methods of credit control overcome and the good functioning of the Federal Reserve System promoted by intelligent cooperation between the Federal Reserve Banks and the general business public. Until this result is attained we are likely to suffer from hesitant or tardy action in the matter of Federal Reserve discount policy.

Time is the essence of success in matters of credit and currency regulation by central or reserve banks. There are times on an upward trend of industry when the intervention of the Federal Reserve System by suitable discount policy can stimulate a forward movement in industry by maintaining a low rate; and later on by an advance of rate restrain the speculative extension of industry and thus serve to maintain a good condition of activity and prosperity. The function of rate policy is thus at times to accelerate the flow of reserve credit by a rate that invites borrowing and at other times to retard it by a rate that discourages undue resort to the facilities of the Federal Reserve Banks. On a downward trend of industry when the thing most to be feared is hasty liquidation under the pressure of fear of monetary stringency, Federal Reserve Banks through their rate policy can do much to make the inevitable liquidation gradual and orderly by lowering the terms upon which their credit is made available.

Action by the Federal Reserve Banks on the all important matters of dis-

count policy and open market operations to be competent must, of course, be based upon insight into the economic factors governing the state and trend of industry, trade and credit. Without such knowledge there can be no real conviction and, consequently, no real policy. But more than conviction is necessary to make Federal Reserve action effective. Such action when taken must be rightly timed and be prompt. Hesitation and delay are the deadly causes of miscarriage and failure in the matter of central banking administration. They have beset central banking administration in all countries. To overcome them must be a primary concern in the development of our Federal Reserve System. As yet our system lacks that high degree of initiative essential to its most effective operation. This is in part due to the complex character of our Federal Reserve organization and the resulting wide distribution of authority and responsibility for its management. But it is also due to the fact that the larger economic and credit problems with which the Federal Reserve System is called on to deal are lacking in the definiteness of character which makes for definiteness of action. The processes of inflation with which our Federal Reserve System, like other central banking systems, is called upon at times to cope, are insidious in their character. Inflation does not announce its coming in advance. It is not born full-fledged. It begins as expansion. It becomes inflation when expansion has gone beyond the limit of economic safety, that is when further additions to the country's supply of credit can not be digested by the body economic in alimenting productive industry. The excess goes to feed the appetite for speculation, and that appetite, more than most appetites, grows by what it feeds on. Thus inflation makes rapidly for more inflation unless its incipient stage is clearly perceived by those responsible for the maintenance of a healthy credit and business situation and subjected to appropriate restraining influence.

### Possibility of Gain In Momentum

**W**E are in the midst of a very considerable industrial expansion with many of the factors that make for prosperity gaining in momentum. Production, trade,

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# The Capacity to Receive—The Next Problem in Interallied Debts

By FRED I. KENT

Vice-President, Bankers Trust Company, New York

**After All Foreign Debts to United States Are Refunded, Creditor Nations May Desire to Study Loans From New Point of View. May Find Full Payment Not to Their Advantage. Formula for Reduction May Bring About Cut in Military Forces.**

**A** DECLARATION of war. The United States of America one of the world's great countries unprepared. Its Allies on the battle front strained to exhaustion. Their armies needing guns, munitions, food. The United States could not immediately fight, but it could supply guns, munitions, food. If the Allies were beaten before the United States could fight, it would still be at war and alone. Its problem would be vastly increased. It would have no friendly shore upon which to land before striking at the enemy. Its soldiers would have to carry on without support. The loss of life would be enormous before victory could be seen.

As a war measure the United States loaned the Allies great sums that they might buy guns, munitions and food for their soldiers. The battle line was thereby held for a year while America prepared to fight. When the loans were made they were properly loans because the United States was expected to be actively engaged promptly, even as England had been. It would have to pay for guns, munitions, and food for its soldiers. It was right that each country assume its own financial burdens. The responsibility for expenditure should be with those disbursing funds. Otherwise the inevitable waste of war would be increased and victory jeopardized. Such responsibility could only follow if each country agreed to pay for its own requirements. This was necessary to save lives.

But the United States did not fight promptly. The Allied dead grew for a year. They held the line. The lives of countless American soldiers were thereby saved. Our part for a year was to make loans.

**T**HE war is over. The United States and her Allies were victorious. The losses of life were tremendous, but to the United States far less than if the Allies had not held the battle line. This line was held by their soldiers largely equipped with guns and munitions, and maintained by food obtained from the proceeds of loans advanced by the United States. Until America entered the war actively, the Allies paid with men, the United States with money, but money loaned. The American people also spent huge sums for their own military preparations, and toward the end of the war effectively took their place on the fighting line beside their Allies. Even as the lives lost by the Allies during the year the United

States was preparing for war served to protect American lives, so did they also protect the lives of the Allies. However, the value to the United States was none the less on this account. And the American people willingly and gratefully acknowledged their debt to their European Allies in the lives that were spent before its soldiers could take a proper part on the field of battle.

However, lives cannot be measured in money.

But there is something more important even than lives. That is integrity. Worldwide abuse of integrity in one generation can cause more suffering in following generations than mere loss of lives will accomplish in its own generation.

National promises given in good faith should be kept in spite of burdens that they may carry. Government obligations could not be repudiated without seriously depreciating the morale of the world, which could only be followed by disaster in this generation, or generations to come. Men in authority in the debtor nations among the Allies have recognized this truth, and no governmental attempt has ever been actively made to repudiate the Interallied indebtedness, although politicians for so-called purposes of home consumption have talked much of repudiation.

**D**EBTOR nations for the good of the world and for their own good more than for that of the creditor nations, could not afford to consider cancellation of debts undertaken in good faith, even though they were made under the strain of war. For the same reasons debtor nations could not afford to fund their indebtedness until conditions following the war had settled down sufficiently to enable them to do so on a basis that could be carried out. Capacity to pay following war is measured as to amounts and times of payment by such conditions as may exist in countries concerned. The state of the mentality of a people with its certain effect upon political conditions has more influence on immediate capacity to pay than mere physical destruction that does not carry complete devastation. The debtor nations were therefore obliged to wait before definitely funding their war debts until they could see their way clear to meet such agreements to pay as they might undertake. Their doing so was an honorable proceeding. They were not justified in agreeing to any undertaking as to payments

until they had reason to believe that they could carry out their contracts.

Following the war further loans were made by the United States to European countries to enable their peoples to live during the early period of reconstruction. Such loans were justified from the standpoint of humanity and also because of their value in making possible the reconstruction of American trade. When these loans were made, capacity to pay could not be determined as to amounts and times of payment. Countries receiving these loans were not expected to fund them until ability to meet their agreements could be foreseen.

The Allied loans to the United States are rapidly being funded, and it can confidently be expected that such operations will be completed with all debtor countries soon. When this has taken place governments will stand before their peoples and the world as recognizing the value and veritable need to humanity of integrity of purpose.

**A**FTER the Interallied debts have been funded and capacity to pay off the debtor nations has been agreed upon will come the problem of capacity to receive by the creditor nations. Capacity to receive carries with it more than mere physical capacity. Capacity to receive means ability to absorb payments without injuring industry, trade and commerce, or the morale of the people.

It is conceivable that after funding of the Interallied debts has been completed, that the creditor nations may then desire to study the loans from a new point of view. They may find that full payment may not be to their advantage, and further that an analysis of the conditions which prevailed at the time the loans were made may show that the creditor nations themselves received sufficiently positive advantages through their extension so that their reduction can be accomplished on a basis that is fair to the creditor nations, and that the debtor nations can afford to accept in all honor. Such consideration may develop a way to bring about the simultaneous reduction of the military forces of the nations of Europe to those required to serve as national police. The formula for such reduction which would have to be made effective by parliamentary action, would of necessity be complex and difficult. This fact, however, will not deter men of ability with high ideals and great perseverance from finding a solution.

# The Shrinkage in Borrowing on the Open Market

By BRUCE DAVENPORT

**Volume of Commercial Paper Outstanding Is Lower Than Any Time Since 1921, Although Largest Number of Firms on Record Are Offering Their Notes for Sale. Reasons for Decline. Yield on Paper Higher Over Long Period Than on Bonds.**

**B**ORROWING on the open market has attracted the largest number of firms on record. But, singularly enough, the volume of commercial paper outstanding has never been as small since the days of the memorable depression in 1921. On the first of October, there was less than \$800,000,000 in this class of paper in the portfolios of the purchasing banks and corporations. Each month of the present year witnessed a gradual—but steady—shrinkage in the total.

For many decades, the banks have looked upon commercial paper as a gilt-edge part of their secondary reserve. Their average holdings during the past few years have ranged beyond three-quarters of a billion dollars. But, for nearly a year, they have looked with growing favor on bonds. The paper brokers report that this tendency has been especially marked in New York and the larger financial centers, where the buying of commercial paper has been very limited during recent months.

"Easy money!"—this is the major reason for the present lowly estate of the commercial paper market; but it does not tell the whole story. The hand-to-mouth system of buying in the United States and the carrying of smaller inventories are figuring in the shrinkage.

## Source of Cheap Credit

**T**HE open market is the national pipe line of credit. It seeks out the idle or low-priced credit of one section and transfers it to the place where money is in greater demand. For years, the leading firms in almost every stable line of industry have sold their notes in the open market to finance a part of their current or seasonal operations—for it is one of the principal sources of the cheapest credit obtainable. As a rule, however, only those firms that have the highest standing have been able to do their financing in this way. If there were such a thing as an aristocracy of borrowers, the open market borrowers doubtless would be known as the aristocrats.

There are, according to the National Credit Office, about 2800 concerns within the select ranks of those who sell their notes in the open market, although only about 2500 have been active during the past year. It is noteworthy that a hundred new names have appeared during this period; additions to the list are not easily made because before a concern can invade the open market

successfully it must "go out and get a reputation" that will permit it to pass the most critical analysis of numerous credit sharps.

## Why Volume Is Small

**T**HREE are a number of reasons why the volume of paper outstanding is small. Of the firms disposing of their paper through the brokers, about one-third are in the textile industry, including mills, jobbers, exporters, cutters and the large retailers. From the outset the textile firms have leaned heavily on the open market for financial aid—the New York dry goods commission houses being the first to conduct their financing in this manner. The leather trade and the chemical industry have been prominently represented. As is well known, these industries have not participated in the up-swing of business to the extent that the other basic lines have, and their demands for temporary financing have shrunken, accordingly.

The rates of interest paid on the notes have been so low that many banks have been reluctant to place their surplus funds in the paper, despite the high safety of this type of investment and the freedom from depreciation in the principal. During the first half of 1925, commercial paper rates ranged from  $3\frac{1}{2}$  to  $4\frac{1}{4}$  per cent and the average yield has been around  $3\frac{3}{4}$  per cent. Many of the smaller banks were paying 4 per cent or more on savings accounts so it may be readily seen why they resisted the purchase of commercial paper under the prevailing conditions.

It has not been among the country banks that the sharpest reduction in purchases has been noted—but among the big banks in New York and the largest financial centers. In times past, they bought large blocks of notes from the brokers but, generally speaking, their purchases of late have been limited. They have preferred to pour their funds into bonds and other securities.

But more recently the limited buying of the New York banks has been attributed chiefly to the money requirements of the bull stock market. The Metropolitan banks have been able to get a higher return from call loans that from commercial paper and have used funds that might have been invested in normal times in paper to finance security transactions. The small country banks have not been able to profit from this situation to the same extent because it requires large units of money to participate

in the call money market, whereas commercial paper may be bought in units as small as \$5,000. Another cause for this inactivity is the fact that numerous issues of fixed capital are being financed by the New York banks.

Many of the concerns that have borrowed on an average of \$850,000 annually in the open market have not needed this money to finance their operations. The turnover has become more rapid. The dealers do not lay in as large stocks as they formerly did, one reason being that the transportation systems have speeded up and the national policy of hand-to-mouth buying has reduced the time that money is tied up before the finished product reaches the ultimate consumer. Then, too, it appears that corporations are relying to a greater extent upon their own capital to finance their current operations, rather than on outside borrowing.

Easy money has caused the withdrawal of several of the concerns that used to borrow substantial sums in the open market. They have taken advantage of the opportunity to issue long term bonds to pay off bank loans, provide for their current needs and thus get their financial cares behind them. The rate paid—around 6 per cent—has been materially higher than the prevailing rates on commercial paper but, in considering all things, they have thought the cost to be reasonable.

As a concern must come up to the highest credit standards, if it is to use the open market advantageously, a part of the decline in the volume of paper outstanding is due to the fact that a few firms have gotten out of line and no longer have this recourse.

## Bank Competition Keen

**T**HE commercial paper brokers have encountered more than ordinary competition with the banks of late, they report.

As a rule, banks have not discouraged large concerns from going into the open market to obtain funds. They realize that this act will bring the company under the intelligent scrutiny of many credit men and protect the bank's risk by revealing any inherent defects in the financial set-up. The company acquires another string in its credit bow and thus gets a chance to clean up its line of credit periodically with the bank.

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## As Cartoonists See the Parade of Events



A Bit of Friendly Advice—Chapin for the New York Herald Tribune.



Everywhere That Mary Went—Brown in the New York Herald Tribune



Penning Up the Bull—De Mar in the Philadelphia Record



Lock Them Out—Halladay in the Providence Journal



Team Work—Rodger in the San Francisco Bulletin



Can They Gain Through That Line?—Chapin in the Hartford Times



Red Grange Has Nothing On Us—Chapin in the Norfolk Virginian-Pilot



Digging Bait—Orr in the Chicago Tribune



American Business: "Hey! Waiter! There's something in the soup!"—Morris in the Passaic Daily News

# Some of the Major Problems

By JAMES E. CLARK

**L**LOYD GEORGE has recently come forward with an astonishingly bold plan for the relief of British agriculture. According to reports received here there are indications that the plan is taking hold of popular fancy. And as long as we sell some of the products of our farms overseas we can not be indifferent to the success or the failure of this plan.

Lloyd George would have the state hold all the land, and rent it to the people. If the plan is adopted an Englishman thereafter might bequeath a tenancy to his heirs, but would not be able to will the old form of absolute ownership. If the plan went into effect even the estates of royalty would not be immune but like the estate of some impoverished landowner be put into the common pot for such apportionment as the constituted authorities might decree.

Had the plan been offered by a less prominent man it might have been dismissed with a gesture as something fantastic and impossible. There might even have been a general pointing of fingers to Russia as a horrible example of the disaster awaiting the nation which attempts to make the state be all and have all; but coming from Lloyd George, and backed with a bookful of details and statistics, England is considering it and discussing it, and the discussion is expected to increase in intensity as the winter lengthens.

That any well considered plan to improve agriculture should get instant attention is not surprising when it is recalled that there are in England today fewer people employed in agriculture than are registered as out of employment in the industries.

The Lloyd George plan is not one of confiscation, but rather of equitable distribution. The state will take all the land and will rent it for all time but it will also continue to pay the present owners an income from year to year. By the examination of books and records the state will discover just what the landlord has been receiving in return for the rent of his land, or in any other form of income and the landlord will on that basis receive from the state an equitable return.

The landlords are not rising in indignant protest against the proposal because in so far as financial returns are concerned landlordism necessarily shares the fortunes of agriculture in general. A fixed income from the government, payable at certain stated periods, and with freedom from those many excuses for failure to pay with which all landlords are familiar, is preferable to the uncertainties and vexations of personal management.

With the state assuming all burdens of renting, oversight, collecting and occasionally evicting the delinquents why should a landlord, contemplating the figures of a declining income, and sympathetic with the troubles of impoverished tenants be unfriendly to a proposition which assures him

an annual income, and freedom from care?

The tenant will pay an annual rental and if he tills the land adequately will be assured of a life tenure. Though he may pay rent all his life it is to be assumed that the rent will be low, yet perpetual rent paying may be perhaps less onerous than the pulling qualities of a mortgage, some of which in our own country have sometimes lasted not only a life-time, but have been paid on from one generation to another.



## The Two Banking Systems

**T**HE difference between the growth of national banks and of state banks is a matter that may well concern others besides what may be termed the national bank group.

The percentage of national bank resources to the combined resources of national banks, state banks and trust companies from 1878 to 1924, as charted in a report of the Comptroller of Currency, shows a constantly falling line.

In 1878 the national banks had 80 per cent of the resources of all banks while in 1924 the national banks had but 46 per cent of the resources—a loss of 34 per cent.

That the trend is a pronounced trend is strikingly illustrated by the following excerpt from the Report of the Comptroller of Currency for 1924.

"In 1870 there were 325 state banks and 1612 national. In 1884 there were 817 state banks, exclusive of savings banks, and 35 trust companies, with aggregate resources of \$760,000,000, and 2625 national banks with aggregate resources of \$2,283,000,000. Twenty years later, in 1904, there were 6923 state banks, exclusive of savings banks, and 585 trust companies, with combined resources of \$5,240,000,000, while there were 5331 national banks with aggregate resources of \$6,656,000,000. In the next twenty-year period, bringing us up to June 30, 1924, we find 17,436 state banks, exclusive of savings banks, and 1664 trust companies with aggregate resources of about \$25,140,000,000, and 8085 national banks with aggregate resources of \$22,566,000,000. The increase in aggregate resources of state banks and trust companies for the year ended June, 1924, was \$1,478,000,000 as against an aggregate increase for the national banks of \$1,054,000,000. Forty years ago the national banks had 75 per cent of the banking resources of commercial banks

and trust companies in the United States, whereas by June 20, 1924, they had dropped to about only 47 per cent. During the past two years the increase in national bank resources was about \$1,860,000,000 as against an increase in the resources of state banks and trust companies of about \$3,540,000,000."

Among the reasons for this are perhaps the quicker reactions of state legislatures to business requirements than are to be expected from the national legislature; the less exacting supervision of state banking departments in some of the states, where adequate provision has not yet been made by law for supervision and examination comparable with that attendant upon the national system; and the convenience of the supervisory and chartering powers.

But whatever the controlling reason in the majority of cases; whatever the dominating group of reasons, the fact remains that here is a trend that concerns all of banking, for it is an open question whether the most ardent advocates of state banking would have gained anything for the members of the state systems if the national banking system dwindled to zero.

The system of checks and balances in the national government is the preserver of the national government. Without that system the government would not long survive. The national and the state banking systems, in their functioning side by side, are not without this check and balance characteristic, from which all business benefits.

## Reader Interest

**W**E have been taking soundings to ascertain the depth of the average reader's interest in this magazine.

We knew that in the average bank the JOURNAL was carefully read, and that the bank officers who subscribe for it derived both pleasure and profit from its pages; but the "soundings" revealed a depth of reader interest, which even in our most optimistic moments we would not have hoped for.

That one copy of the JOURNAL was as a rule read by two or three bank officers has long been known but we were unprepared to learn that in many cases one copy is read by as many as seven bank officers. It has been gratifying, too, to learn that in many small banks a single copy of the magazine goes round to all the employees, and all read it. In some of the larger banks there are scores of subscriptions each going to the home address of an officer.

We asked bankers as to what class of articles they read, and what class of articles they preferred to read, and there has been in their replies a gratifying repetition from hundreds of correspondents of the words—"from cover to cover!" not infrequently given a humorous touch by writing "from kiver to kiver."

*(Continued on next page)*

# Bank Investment in Foreign Bonds

By LEWIS ALEXANDER

**Member Banks In Federal Reserve System Alone Have \$500,000,000 Invested in Foreign Securities, With Country Banks Owning Greater Part. High Yield Proves Attractive. Little Known Before War. Holdings Estimated at \$850,000,000.**

WITH the flotation of foreign loans running over a billion dollars annually, American banks are increasing their investments in foreign securities. The holdings of the member banks of the Federal Reserve System alone are now almost as large as the total of foreign security offerings listed on the New York Stock Exchange at the outbreak of the war, for, at the end of the last fiscal year, they had more than a half-billion dollars in these bonds.

One of the changing phases in American finance is the growing interest of the small investors and the country banks in foreign securities. The 9545 banks in the Reserve System held \$327,303,000 in bonds of foreign governments and \$173,204,000 in other foreign bonds and securities, including the municipal issues, on last June 30. Of these securities, the country banks held slightly more than half of the total. Figures can not be marshalled showing how large the investments of banks outside the system in this kind of securities are, but if these institutions have the same proportion of their funds in these bonds, the total amount will run about \$850,000,000.

## Little Known Before War

FOREIGN securities were little known to the banks in the pre-war days. All of the national banks in 1914 had just \$15,627,242 in all foreign securities, including the bonds of governments and the obligations of other overseas interests. These were held mainly by the banks in the reserve cities. This represented an average of \$2,062 for each national bank. Yet within a single decade, the investments have grown twenty-five times, at least.

At present each member-bank of the Federal Reserve System has an average of \$50,500 in foreign securities among its investments.

The yield to be obtained from foreign bonds is materially higher than the return offered on domestic bonds, due to several reasons. One of these is that the American banks and investors are not so well informed as to the merits of the issues as they might be and the foreign borrowers have had to pay a higher rate to insure the flotation of their bonds. In November, the yield on foreign government bonds ranged from 5.20 to 8.02 per cent, while the bonds of municipalities and private corporations generally bore a higher rate. The feature of yield doubtless has been one of the controlling factors in persuading the banks to turn some of their funds into this comparatively new field.

The participation of banks in the purchase of foreign bonds, however, is not to be compared with the subscriptions of the investing public. It is to the legion of small investors that the success of the foreign loans must be attributed.

This is clearly indicated by a glance at the figures, showing the comparative holdings of the banks and the whole public. The Department of Commerce reported that residents of the United States owned foreign government securities aggregating \$3,840,000,000 at the beginning of the present year. Since that time, loans have been floated for nations overseas that would run the total well above the four billion dollar mark, and the colossal sum does not take in to account the securities issued for foreign municipalities and the various industrial enterprises that have looked to the United States for operating capital and revenues to rebuild their plants and equipment. The banks, it is believed, have purchased for their own investments about one-tenth of the longer-term foreign issues that have been put out during the past two or three years. The national banks increased their holdings by nearly \$100,000,000 during the year that closed on last June 30.

## Reserve Member Bank Holdings

FOR the first time, the Federal Reserve Board recently has had a classification made of the stocks, bonds and other securities owned by the banks that are members of the Reserve System. The bulk of the holdings is made up of United States government bonds and the bonds of various corporations, which represent more than two-thirds of the total investments. Between one-eighth and one-ninth is in state, country and municipal bonds.

Out of \$8,888,345,000 in securities, the banks have only \$275,334,000 in stock of corporations:

The totals are:

United States government securities	\$3,802,370,000
State, county and municipal bonds	1,028,906,000
All other bonds	2,784,762,000
Stock of Federal Reserve bank	114,967,000
Stock of other corporations	275,334,000
Other domestic securities	81,499,000



Foreign securities are distributed as follows:

	Foreign Government Bonds	Other Foreign Bonds
Central reserve city banks:		
New York .....	\$40,428,000	\$32,924,000
Chicago .....	22,486,000	3,460,000
Other reserve city banks	92,663,000	47,781,000
Country banks.....	171,726,000	89,039,000

Banks that are members of the Reserve System hold three-fourths of the bank investments of the country, representing \$8,888,345,000 out of a total of \$12,097,000,000.

The mutual savings banks constitute a very important group; their holdings are not included in these totals. There are 611 of these institutions and they have large investments amounting to \$3,351,068,000. The banks are restricted, as a general rule, to legal investments and, in some states, foreign bonds do not come within this class. There is no data showing what proportion of their funds is invested in foreign securities but, if this amounts to 5.6 per cent of their total investments—as is the case of the Federal Reserve member banks, the mutuals would hold more than all of the non-member banks.

The refunding of the war debts of foreign powers to the United States will clear the way for the flotation of further foreign loans in this country, both for governments and for private enterprises. While it is expected that the investing public will absorb the issues, the banks doubtless will enlarge their holdings.

## Major Problems

(Continued from page 417)

There is a peculiar satisfaction in the unanimity of thought in the bankers' replies to our queries, that the JOURNAL interests them and serves them, for that is the whole object of the publication effort—to serve the bankers and through the bankers to serve all business;—a peculiar satisfaction, too, because notwithstanding all the demands of business and all the beckoning of worthy publications, local, national and class, so many men find pleasure and profit in reading all this magazine each month.

Always mindful of the many demands made upon the banker's time, it has long been the editorial policy to admit to the pages of the JOURNAL only those articles which, when read by a bank officer or a bank employee, would be actually useful and helpful to him in the discharge of his duties. The maintenance of that policy, perhaps, accounts for the depth of reader interest noted in the foregoing.

# The Business-Building Budget

By W. R. MOREHOUSE

Vice-President, Security Trust & Savings Bank, Los Angeles

## How Much a Bank Should Spend Must Be Governed by Conditions. Letting Down in Times of Prosperity Is a Mistake. The Average Size Account Is the Best from the Bank's Standpoint. Gift of First Deposit to Get Small Savings Account Inadvisable.

**R**EARDLESS of the basis by which banks lay out their business-building budgets, the truth is, in all probability, they will not stick to their budgets. Banks seldom do. As a matter of fact, a budget should be subject to revision as often as changes are desirable. In other words, a budget should be tentative only.

Because a budget calls for the expenditure of \$10,000 is not in itself a sufficient reason for spending that amount, nor is it good reason for not spending more if the expenditure of a larger amount is justified by the results. Because \$4,000 has been set aside for newspaper advertising is not a good reason for buying \$4,000 worth of space in newspapers.

How much a bank will actually spend in the future for new business is about as easy to answer as how many nuts should a person eat daily without knowing whether he is to eat peanuts or cocoanuts. A certain banker has answered this question of the annual budget for business-building by saying that a bank can afford to spend any reasonable sum as long as the results turn in a good profit to the bank. Another banker answers the same question by fixing the budget arbitrarily on a percentage of deposits, or on capital and surplus, and still another banker bases the amount of his appropriation by what his bank spent the previous year, or by what other comparable banks are spending. A majority of bankers, however, have no definite plan, using business-building mediums only when the spirit moves them, or when a neighboring bank becomes active in building up its deposits.

### Extremes Not Justified

**H**OW much a bank should spend is often regulated by financial conditions. During hard times, with strict economy the rule, the business-building budget is usually pared to the bone as an unnecessary outlay of money. On the other hand, in prosperous years it is often over-liberally increased. Both extremes are unjustified. In too many cases bankers become unnecessarily alarmed over adverse conditions and slash and cut down their new-business budgets to the point of actually checking their future growth. In one stroke, figuratively speaking, they clamp the lid on and call a halt to many admirable business-building mediums which are contributing to the growth of the bank.

By the severity of their demands to "cease firing" they literally destroy the enthusiasm, pep and push of those engaged in new busi-

ness work and they accordingly destroy plans which have taken months to develop. By too much "cut down this" and "cut out that" the effectiveness of their business-getting organization is reduced to the minimum. Naturally, those interested in the work lose their interest in it and seek other lines of endeavor. Good plans for getting new business one by one are discontinued, only to be forgotten and scrapped. As is often the case, in a few months business conditions change for the better, and the need for strict economy passes, but in the meantime what has become of the once efficient working business-getting organization? It has scattered and the personnel has turned its attention to other work.

In order to restore the department to its former effectiveness it will need revitalizing, need energizing, need encouragement, all of which may take months of time and necessitate a considerable outlay of money. Again and again, I have observed cases where retrenchment was so severe that it crippled the new business activities of a bank to the point where it took it months to get back into full swing again. To "let down" completely in business-building is a dangerous thing to do.

### Must Keep Mobilized

**I**F there is one department which a bank should keep mobilized to a state of effectiveness in quiet seasons, or when money is very cheap, it is the business-getting department. If there is any time in a bank's history when it needs deposits it is during hard times, and for this reason it should continue its efforts to get new accounts, instead of completely destroying or handicapping the very mediums with which it reaches out for new business. Not that a bank should continue to spend money as freely as during times of prosperity, but in reducing its expenditures to meet a season of low earnings it should not abandon its business-building program almost entirely. Reduce, yes, for it is imperative in some cases, but in economizing keep alive and in use to a reasonable degree the best producers on your business-getting program. The least a bank can afford to do, is to centralize every effort on making a reasonable number of successful mediums produce even more than in the past, although being operated on a minimum outlay of cash. Employees should be used more in such times. Point out to them that the quality of service which they render must be made especially attractive and to a large degree fill the place of mediums which are not being "pushed" because of the necessity

for economy. Keep them interested in the bank's development and growth.

With a new-business organization more or less active during hard times, it will be necessary only to step on the starter, figuratively speaking, when better times come, for the new-business department to get in full swing again. But to permit retrenchment to demoralize and disorganize all plans for future growth is a mistake.

### Letting Down in Prosperous Times Is a Mistake

**A**COMMON tendency among banks is to ease up on the securing of new accounts when times are prosperous, when money is cheap, and accounts comparatively easy to obtain. Also when competition is keenest and accounts hardest to secure, the tendency is to redouble the effort to get them. Such a policy is not sound, based on the best principles of business-getting. Like the colored soldier in the war who was told if he would zigzag when charging the enemy's lines he would not be hit. After a charge he was found on the battlefield seriously wounded in several places. A comrade asked him why he didn't zigzag as directed, to which the poor fellow replied: "I did—but I must have zagged when I should have zigged and zipped when I should have zagged." So it is with business-building in so many instances, the average bank will zig when it should zig and zag when it should zag.

I am a stickler for capitalizing prosperous times for getting new customers and then when hard times come keep as many of those who came easy as possible. This applies equally to seasons, for in many localities at certain seasons accounts are secured much easier than at other times. Why work yourself into a frenzy trying to get savings accounts during a quiet summer season, when just ahead of you is a prosperous fall and winter when accounts can be secured with much less effort? A good rule to follow is to get as many accounts as you can when getting them is comparatively easy, and if you ease up at all, do so at a time when business is dull and accounts are hardest to get. When money is cheap is a good time to go after accounts, when it is tight is a good time to catch your breath, keep your organization together and in condition and in readine for the next period of prosperity and plenty.

The average banker is a big game hunter. He would far sooner bag one big juicy account than several accounts of

(Continued on page 460)

# What Does a Small Bank Gain By a Trust Department?

By B. R. CHANDLER

Vice President, First National Bank of Coos Bay, Marshfield, Oregon

## Importance and Help of Safety Deposit and Mortgage Loan Business in Getting Trust Department in Small Bank Started. Give Immediate Source of Revenue. Effect Far Reaching. Five Questions for Bank About to Assume Fiduciary Powers.

**T**HE benefits of a trust department in a country bank are many but those of most importance are in connection with its safekeeping and safe deposit business and the making and placing of mortgage loans of variable amounts.

We found, especially with the advent of the world war and the sale of bonds by the United States government to thousands of small investors an ever increasing demand on the part of our people for a safe place in which to deposit their securities and other documents of more or less value. A bank vault being the safest place to protect these papers from theft, fire and their own carelessness, our vault became literally jammed with all manner and means of securities and documents for which we acted as "gratuitous bailee." This situation caused us much concern and we were diligently seeking a graceful way out of the predicament when our good friends, the Federal Reserve Board, showed us the way.

**T**HROUGH the establishment of a trust department and the installation of safe deposit boxes we were gradually able, not only to properly care for the safe keeping needs of our customers, but in a small way increase the bank's earnings, for we found the majority of our people willing and ready to pay a small annual fee for such a service properly conducted.

For ordinary papers such as deeds, fire insurance policies, abstracts and the like, we issue merely a receipt in duplicate, signed by an officer of the bank and the customer, enumerating the different articles left for safe keeping. These papers we file in a container, properly labeled, in an ordinary document file in our book vault. For securities such as stocks, bonds and notes we issue a regular trust receipt, filing the securities in a separate apartment of our securities safe.

This systematizing of our safe keeping department has also enabled us to carry blanket burglary and robbery insurance on the valuable securities of our customers as we have little or no worry as to our ability to make a positive proof of loss should it at any time become necessary for us to collect from the insurance companies. This same program could be carried out in any country bank without establishing a trust department but it took such a department to put that part of our house in order.

The most important benefit to the country bank that establishes a trust department, is its ability through such a department to handle mortgage loans that are an essential factor in the credit structure of all small communities.

There has always been in our community this demand for mortgage loans. The amount and length of time desired and necessary were such that we could not handle them through the commercial department of the bank. On the other hand, a great many small investors, with no knowledge of money lending, and desiring to get the greatest yield with the maximum of protection are more and more depending on their bankers for advice and aid in the investment of their savings. This creates a situation, in itself, sufficient to warrant the machinery necessary to render this service. All this situation lacked was a medium such as our trust department through which these transactions could be had.

This service has a more far reaching effect in a small community and more benefits accrue to the country bank than would at first blush indicate. The bank not only serves those who are directly in need of proper financing but it reaches a multitude of small investors, many of whom were never customers of the bank and it creates a friendship for your institution that in time becomes a real asset. We attribute much new and profitable business in our commercial and savings department as a direct result of the activity of our trust department, along these lines.

**T**HIS function of a trust department in a country bank I consider of prime importance because it provides an immediate source of revenue to the bank and will, as it has in our case, defray considerable of the overhead expense chargeable to the department during the first few years of its development.

The business derived from acting as trustee under private or court trusts for the first few years is practically negligible, as is also, the business accruing through the bank's appointment as trustee under wills. This is caused by the fact that in the small community practically all estates are modest in size, as are the fees and profits, yet it is well for the country bank to make a thorough canvass of this situation because eventually it is the volume of this class of trust business that will enable the country

bank to have its trust department on a self-sustaining and profit paying basis, take care of the total overhead expenses chargeable to the department, and at the same time add substantially to the net earnings.

In a few instances we have acted in a trust capacity for groups of people owning undivided interests in sub-divisions of real estate. In these particular cases many or all the parties were non-residents, which naturally made the sale of any lot or parcel of this property slow and cumbersome. Under the trust deed, title was taken to the bank as trustee, the trust indenture reciting the terms and conditions under which the trustee was to pass title and the manner of distribution of the proceeds from sales and the fees of trustee definitely fixed. This class of business, while very profitable, requires much care and diligence and I would advise country banks not to take on too much business of this nature until their trust department is thoroughly established with a sufficient clerical force to give it the proper detailed attention necessary.

**T**HE first problem facing the directors of a country bank is: Have we an officer in our organization who is qualified to undertake and manage such a department and just what constitutes these qualifications?

Second: What accounting system is it necessary to install, what forms and filing equipment should the initial outlay consist of, so that, in the future, as the business grows and develops into all the branches of trust service, the system of accounting and records can be expanded to meet the situation without too many radical changes?

Third: What program of advertising should be chosen?

Fourth: An avenue of approach must be opened to present the trust department in its proper light to the bar association, otherwise, the bar will take the attitude that the bank is a competitor in its particular field of activity and operated primarily for the benefit of the bank's attorney.

Fifth: The field is limited and the growth of the department is necessarily slow, which is apt to be discouraging and as this department will need only a part-time attention of one officer the probabilities are it will be neglected unless that officer is absolutely sold on the trust department idea and takes pleasure in nursing it along four or five years until it can speak for itself.

# Savings Accounts Grow in Size and Amount

By W. ESPEY ALBIG  
Deputy Manager, American Bankers Association, Savings Bank Division

**Total for United States is \$23,134,000,000. Savings per Capita is \$204. Gain for a Year is \$1,945,000,000. Massachusetts Leads Country in Savings Gain per Inhabitant. There Are 43,850,000 Savings Accounts in the Nation. A Rapid Increase.**

**S**AVINGS deposited in the banks and trust companies of continental United States, as of June 30, 1925, according to reports received by the Savings Bank Division, American Bankers Association, amounted to \$23,134,000,000, a savings per inhabitant of \$204, a gain in one year of above 9 per cent or of \$1,945,000,000, which is approximately \$500,000,000 more than the gain in savings during the year preceding. These are colossal sums, representing as they do the residue of earnings above expenditure on the part of the people of the United States.

Of more importance socially than the amount of savings is the growth and number of savers, or savings accounts, which as of June 30, 1925, is 43,850,000. Although this shows an increase of 5,118,000 over the figures of a year ago, the total is not pure gain. Thirteen states which were unable to report fully the number of savings depositors in their state banking institutions last year, give the number this year as 2,552,000. Allowing for this deduction, there yet appears a net gain in savings depositors of 1,769,000 in state banks and trust companies and of 797,000 in national banks. The total net gain in the number of savings accounts in the United States is 2,566,000, about equal in number to the present reported population of Minnesota. The state institutions gained 6.3 per cent in the number of savings depositors and the national banks 7.2 per cent or a net gain of 6.6 per cent in depositors in all types of banks, against a gain in population of but 1.4 per cent.

Of the forty-eight states and the District of Columbia only six states—Colorado, Indiana, Missouri, Ohio, Tennessee, and South Carolina—as against nineteen last year, are this year unable to include in their reports the entire number of savings depositors.

## Massachusetts Leads

LESS than one-fourth of the gain in the number of savings accounts can be attributed to the growth in school savings. The prosperity of the country and the better understanding of how savings affect ambition seem to explain the rest.

The reports seem to indicate that the country has not been uniformly prosperous. Areas producing cattle for which the demand has not always been brisk since the close of the war, areas affected by drouth and areas given over to products, the prices

of which for various reasons are not in accord with the cost of production, do not make a showing which reflects a happy condition of living or a situation making for contented citizenship.

In New England there is the steady savings growth which by reason of the diversity of her industries, irrespective of ebb and flow of employment in particularized industries and the un settlement occasioned by

**SUMMARY OF SAVINGS DEPOSITS AND DEPOSITORS IN THE BANKS AND TRUST COMPANIES OF CONTINENTAL UNITED STATES, COMPILED FROM REPORTS RECEIVED BY THE AMERICAN BANKERS ASSOCIATION—SAVINGS BANK DIVISION**

State	Savings	Per Inhabitant	Gain Per Inhabitant	Per Cent Gain Per Inhabitant	Per Cent Gain Per Inhabitant 1925	Number of Savings Depositors
	1925	1925	1925	1925	1925	1925
Maine	\$265,667	\$339	\$9	2.7	41.3	616,233
New Hampshire	190,536	423	16	3.9	46.9	362,301
Vermont	173,410	492	26	5.6	48.2	303,179
Massachusetts	2,139,450	518	42	8.8	69.2	3,912,577
Rhode Island	299,202	440	..†	..†	53.8	369,503
Connecticut	681,926	445	22	5.2	42.6	1,305,585
New England States	3,750,191	473	32*	7.2*	58.2	6,869,378
New York	5,546,128	499	45	9.9	126.8	7,670,467
New Jersey	1,040,045	297	34	12.9	121.6	2,276,155
Pennsylvania	2,187,474	235	17	7.7	92.6	5,537,487
District of Columbia	80,755	162	16	10.9	145.4	289,361
Delaware	50,081	213	11	5.4	77.5	105,894
Maryland	385,785	251	26	11.5	80.6	848,836
Middle Atlantic States	9,290,268	355	32	9.9	115.1	16,728,200
Virginia	216,791	89	4	4.7	117.1	608,138
West Virginia	150,632	94	0	0.0	62.1	432,751
North Carolina	142,282	52	2	4.0	122.0	470,381
South Carolina	112,016	63	10	18.8	70.3	92,267
Georgia	131,962	43	11	34.3	59.2	371,231
Florida	148,310	117	21	21.8	165.9	279,009
Alabama	93,135	38	3	8.5	171.4	275,801
Mississippi	82,176	46	5	12.1	119.0	117,657
Louisiana	123,299	66	3	4.7	106.2	401,222
Texas	164,305	32	3	10.3	166.6	270,262
Arkansas	55,555	35	6	20.6	218.2	140,605
Kentucky**	176,413	71	0	0.0	151.8	366,245
Tennessee	155,178	64	2	3.2	113.3	143,079
Southern States	1,761,734	57	5	9.6	119.2	3,968,648
Ohio	1,164,076	184	11	6.3	71.9	700,601
Indiana	259,499	85	6	7.5	19.7	302,745
Illinois	1,258,614	181	10	5.8	84.7	4,311,400
Michigan	939,047	226	23	11.3	86.8	2,298,969
Wisconsin	453,060	162	7	4.5	65.3	1,313,910
Minnesota	536,586	209	10	5.0	55.6	749,256
Iowa	524,852	209	18‡	7.9	25.9	1,200,039
Missouri	372,190	107	8	8.0	87.7	242,632
East Central States	5,507,931	173	9	5.4	66.3	11,119,552
North Dakota	95,885	140	11	8.5	3.6‡	72,077
South Dakota	102,099	150	4‡	2.6‡	2.0	146,907
Nebraska	213,165	157	10	6.8	46.7	406,288
Kansas	131,213	72	12	20.0	35.8	349,480
Montana	55,757	86	8	10.2	18.8‡	97,117
Wyoming	20,907	94	17‡	15.3‡	22.1	35,395
Colorado	116,264	114	3‡	2.6‡	37.4	164,707
New Mexico	7,291	19	4‡	17.4‡	38.7‡	16,762
Oklahoma	87,284	39	4	11.4	69.6	123,707
West Central States	829,865	92	5	5.7	22.7	1,412,494
Washington	181,293	123	8	6.8	48.2	489,865
Oregon	105,862	125	9	7.7	86.5	278,396
California	1,576,058	392	29	7.9	77.4	2,667,723
Idaho	25,794	52	1‡	1.9‡	6.1	51,051
Utah	61,161	124	5	4.2	36.3	201,990
Nevada	17,458	226	21	10.2	46.7	22,037
Arizona	26,437	65	3	4.8	41.4‡	51,793
Pacific States	1,994,063	255	18	7.5	70.0	3,743,811
United States	23,134,052	204	15*	8.0*	83.7	43,850,127

\*Authoritative census statistics for 1924 not available.

\*\*Exclusive of Rhode Island.

\*\*No report received for 1925; 1924 report used.

†Decrease.

the onset and conclusion of the World War, records a larger savings balance each year through the fourteen years covered by the Savings Bank Division reports. Massachusetts leads this group in gain per inhabitant for the year, followed in turn by Vermont, Connecticut, New Hampshire and Maine. Massachusetts also tops the group in the greatest gain over a seven year period and leads the whole country in savings per inhabitant.

The census of population of Rhode Island taken during the present year indicates a more rapid growth of population year by year since 1920 than that generally ascribed to that state. By reason of the absence of authoritative census statistics for the year 1924 the comparison of last year's per inhabitant savings figures of Rhode Island with those of this year or with those of the other New England states is not possible.

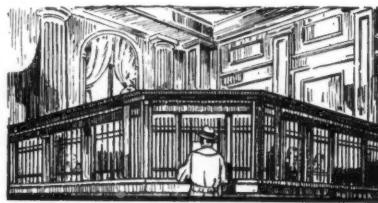
The New England group contains about 7 per cent of the population of continental United States, has 15 per cent of the depositors and 16 per cent of the savings deposits.

The Middle Atlantic group has in New York state the giant among the states of the United States in aggregate savings, and in gain in savings per inhabitant during the past year. This state is exceeded only by Massachusetts in the amount of savings per inhabitant. In fact New York has reported more savings deposits than all the other states in the Middle Atlantic group combined. The growth of savings in all of the states in that division has been fairly rapid. In 1918 less than \$4,000,000,000 in savings were reported. Now they total more than \$9,225,000,000. The percentage of savings gain per inhabitant in this group during the seven year period ranged from 145.4 in the case of District of Columbia to 77.5 in the case of Delaware. The Middle Atlantic states comprise 23 per cent of the population, 38 per cent of the savings depositors and 40 per cent of the savings deposits.

The Southern states have eclipsed both the New England and the Middle Atlantic states in percentage of gain in savings per inhabitant during the past seven years. Arkansas led the way with a percentage of 218.2 and only three of the other states went below 100 per cent. The showing is remarkable when consideration is given to the fact that agriculture, only to a limited area greatly diversified, is the chief industry in a large part of this district, and that the great "money crop"—cotton—of this section has had to fight a plague of great magnitude. No section of the United States suffered more drastic depression in business after the war than the South. With the increasing tendency to establish industrial plants in this section, with the gathering of a backlog of savings and the consequent increase of the supply of money to supply the South's own need at a lower interest rate than now exists, with the diversification in farming, and the control of the boll weevil, such an increase in savings balances may be expected as was not dreamed of a decade ago. The Southern states which hold almost 8 per cent of the savings deposits have 9 per cent of the depositors and 27 per cent of the population of the United States.

The states of the East Central group differ among each other to a marked

degree as to their industries and products. In some of them business has been generally good since the close of the war; in others the unsettled conditions of European markets consequent upon the World War has caused a plethora of supplies which depressed an otherwise satisfactory domestic market. These factors have undoubtedly retarded savings, although they have at considerable expense on the part of the inhabitants emphasized the value of economic knowledge and an understanding of the oneness of our whole economic structure. Despite these handicaps the gain in reported savings per inhabitant during the past year was 89, and the total gain in savings over a seven-year period was 81.9 per cent with a percentage gain per inhabitant over that period of 66.3 per cent. The states of the East Central division have 23 per cent of the savings, more than 25 per cent of the reported depositors and 28 per cent of the population.



THE collapse of the foreign markets after the close of the World War and the slowness of the European countries in rehabilitating their currencies and balancing their budgets, joined with the necessity of re-educating American taste to the use of certain meat products which, becoming difficult to secure during the war, were replaced by other products, struck at savings nowhere harder than in some parts of the West Central states. That the situation is not yet satisfactory is indicated by the reports, but it is immeasurably better than formerly.

Another factor indicated in the reports of savings deposits is the timidity of money. A lack of confidence on the part of the residents of a district in the solidity of the financial institutions tends to send savings into hiding, or out of the district, or into postal savings or formerly into the treasury saving certificates. The rapid growth of savings after restoration of confidence comes probably as much from the deposit of former hidden savings as from current earnings. Kansas, Oklahoma, Montana and North Dakota, according to the reports, made notable gains this year in percentage of savings per inhabitant over 1924. Kansas being fourth in the United States, Oklahoma ninth, Montana tied with Nevada for the thirteenth place and North Dakota tied with Alabama for sixteenth place.

Despite the persistence of unfavorable trends in some quarters and a continued decrease both in the amount of savings deposits and the number of savings depositors in some sections, the gain in savings per inhabitant in the West Central states during the past year is almost 6 per cent over that of the previous year and about 23 per cent over that of 1918. A favorable season or two in the more backward sections of the West Central would tend to bring savings back to the high tide of a few years ago.

## Pacific States Above Average

THE Pacific states have won high place in savings with a per inhabitant savings average of \$255, a gain over last year of \$18 per inhabitant, which is \$3 above the average for the entire United States. The gain in savings per inhabitant during the past seven years is 70 per cent, which is exceeded only by the Middle Atlantic and the Southern group. California and Nevada led the Pacific states in gain per inhabitant during the past year. California stands fourth among all the states in gain per inhabitant. Nevada ties with Florida for ninth place.

The Pacific states with about 7 per cent of the population of the United States have almost 9 per cent of the depositors of record and almost 9 per cent of the savings.

An interesting study, and one which may be possible by another year, is that of the average amount per saver, or account. At present the data from which this information might be secured is not available. Included in savings are time certificates of deposit. Information as to the number of holders of these certificates issued by the state and national banks is not sufficiently comprehensive to warrant a nationwide analysis. The fact that certificates of deposit are much more widely used in the South and West than in the East precludes the possibility of using the number of savings depositors as a basis for determining the average amount of savings per saver. In the New England and Middle Atlantic states the relatively small amounts of savings in time certificates of deposit would affect only slightly the results reached by averaging the total savings among the depositors indicated in the tabulations. In some parts of the South and Central United States the amount of savings represented by time certificates of deposit, although steadily declining in relative to total savings deposits, is yet a considerable part of the total. An attempt to average total savings in these states among the now listed savings depositors would secure an estimate per saver much larger than is warranted by the known factors.

In 1912 time certificates of deposit amounted to 22.8 per cent of the total savings deposits, in 1918 to 18.0 per cent and in 1925 to 13.1 per cent.

The growth both in savings deposits and depositors during the past year has been most satisfactory. The urge which developed subsequent to the World War from a number of factors still persists with increased momentum. The increase in savings over those of 1912 is 175.2 per cent; the increase over those of 1918 is 100.5 per cent. The per inhabitant gain over 1912 is 131.8 per cent; over 1918 is 87.7 per cent.

Notwithstanding the fact that the total individual deposits in banks gained almost three and one-half billion dollars during the past year over 51 per cent of the amount gained consisted of savings deposits.

This favorable standing of savings in relation to individual deposits (which excludes state, county, and municipal deposits and amounts redeposited by other banks) is the best within the years during which the Association has tabulated statistics, and seems to indicate that savings are keeping pace with the accelerated pace of business.

# Financing Outside Nations' Foreign Trade with Dollar Acceptances

By BENJAMIN STRONG JR.  
International Acceptance Bank, Inc., New York

**Sphere of the Dollar as Medium of Exchange Now Extends to Include Financing Movements of Goods Between Outside Countries. New York Discount Market Provides Needed Credits for Transactions All Over World. Largely Post-war Development.**

THE development of an American discount market for bankers' acceptances during recent years has furthered, if it has not actually made possible, the growing importance of this country in financing the international exchange of goods. It may be said, that the discount market was a necessary outgrowth of a tendency toward the dollar as a medium for financing foreign trade throughout the world, but there is no doubt that the success of this tendency depends at the present time to a considerable extent on the ability of our markets to absorb properly the dollar acceptances thereby created. The financing here of our own exports and imports alone is assuming greater figures yearly and a proportionately larger volume of bankers' bills is consequently being created and placed in the market.

The use of the dollar acceptance for our own foreign trade naturally leads to and develops another type of credit—the financing of merchandise movements between two outside countries. This latter type of banking has always been associated with the London market, which has for many decades provided credit for the shipment of goods to and from every country in the world. As long ago as 1780 when the China merchant ships were first going out from Boston and Philadelphia, the American ship owners drew their sterling drafts on their London bankers against cargoes of American goods en route to Eastern ports and against the return shipments of Oriental products for consumption here. This phase of the banking business has always carried with it a large public appeal and its close connection with the hazardous development of the remoter parts of the world has for years fired the popular imagination. The relative complicity of the transactions and the exchange problems involved have added to this feeling to a large degree, but only in recent years have we here examined the business carefully, as a possible field for the dollar and for our own banks.

## Before a Country Can Play a Large Part

THERE are certain qualifications that are necessary before a country can play a large part in banking of this kind. Probably the most important of these is a stable currency of recognized value. It must be

readily taken all over the world and must have a broad market in the main banking and trade centers. Above all it cannot be subject to violent fluctuations that will jeopardize the profits of the shippers and buyers of the underlying merchandise. Ready marketability of the bills of exchange is, of course, a primary requisite and, unfortunately is one that cannot be acquired in a day. Tradition and habit govern it to a great extent and these can only be cultivated gradually.

The necessity for a ready market in bankers' bills we have mentioned above. Its importance cannot be overestimated. After all, there must be a reservoir of credit before the business can be undertaken—and it must be so flexible that it can meet any situation calling for either expansion or contraction.

Geographic position plays a more or less important part in determining where foreign trade will be financed. For example, England's proximity to the continent of Europe has made the financing in London of imports and exports between those countries and other parts of the world a much simpler arrangement than would be the case if the British Isles were somewhere in the South Atlantic Ocean. The proceeds of the sterling finance drafts are readily available and no long mail time is necessary before the transactions are finally terminated. On the other hand, capital is provided in London for shipments between such distant points as Australia and the United States, aided, to be sure, by Australia's being a British possession, but not, however, seriously hampered by the thousands of miles separating it from England.

## Rate Is Important

IN any type of financing the cost is naturally a large factor and during recent years has been a most important consideration in determining where exporters and importers would obtain working capital for their shipments. Since the war interest and discount rates have shown a wide variance in the several countries, and only recently has there been even a semblance of uniformity. The use of commercial credits for foreign trade usually involves an acceptance commission, varying little in different countries, plus the interest and discount on the relative bill. The latter is,

therefore, the determining factor, all else being equal, and accounts to a great extent for the drift toward the dollar in the past few years. At present the New York discount rate for prime 90 day bankers' bills stands at 3½ per cent as against 4 7/16 per cent in London—a margin of 13/16 per cent per annum in our favor. Until the recent raising of the Bank of England rate from 4 to 5 per cent, a margin of only ¼ per cent in our favor has existed for some months. During 1924 the average difference was ½ per cent, New York averaging 3 per cent as against 3½ per cent in London. For a time this year there was a spread of 1½ per cent, during the early summer, when London's market rate was 4½ per cent, compared with 3½ per cent here. Since then the two centers tended to move closer together until the recent rate change in London on December 2.

As stated above, tradition and habit play a large part in determining where credit for international transactions will be obtained. A certain currency may be known and readily acceptable to shippers and buyers of a certain commodity, it may have a ready market in the centers where that commodity is exported and imported, and thus has grown to be an integral part of that particular business. That situation is a difficult one to overthrow and in normal times there is very little reason to attempt to overthrow it. However, when a crisis arises affecting the currency in use, it is certainly desirable to have at hand more than one medium of ready acceptability. This fact has been rather abruptly and unhappily brought out during recent years, when many European currencies underwent severe depressions and new mediums of exchange had to be found. The United States dollar was able to fit in here and there and has gained a position of prestige in certain fields that should be a "fixed asset" for some time to come.

## Look to South America

IT is toward South America that the United States should look for future fields to cultivate. The community of interest existing between this country and the other nations on our hemisphere is becoming increasingly strong as time goes on and proper cooperation from our banks and bus-

(Continued on page 454)

# Blue Sky in Pennsylvania

By EINAR BARFOD  
Deputy Secretary of Banking

## The Enforcement of the Law Has Cleared the State of the General Run of Fakes, Though Enforcement Is Handicapped Because the Right of Appeal from a Court Decision Is Not Given to the Bureau of Securities. Turned Down \$494,000,000 Issues.

**W**HEN the Editor of THE AMERICAN BANKERS ASSOCIATION JOURNAL says bankers have informed him that the administration of the Pennsylvania Blue Sky law has been successful as a preventive measure it makes pleasant reading, of course.

When the Investment Bankers of America endorsed the Pennsylvania Blue Sky law and its administration, we thought it was extremely nice of them, surely.

When the Pennsylvania Bankers Association at their Atlantic City convention complimented our administration, we were very happy to hear such kind words from the home folk, certainly.

But if you think that everything is lovely and that here in Harrisburg we are just strutting around and patting ourselves on the back, you are all wrong.

To the outsider it may appear as if there were some grounds for compliments and congratulations, but here at our Harrisburg headquarters we are not fooled by exteriors and know only too well how very limited our success has been and how very melancholy the outlook is.

The crooks still have the best of it. Our apparently aggressive fight is in reality only a screen for our truly defensive measures against all kinds of fraud schemes in unfriendly courts and against unscrupulous barristers who still find it more lucrative to serve enterprising criminals than merely to assist in the administration of justice in behalf of the general public.

The situation is still one which requires kind and generous resolutions to be vitalized by active, practical and aggressive work to prevent our skin-deep success from breaking out in boils all over our Blue Sky system.

### The Right to Throw Money Away

**S**UCH active, aggressive and practical work has so far been undertaken only by the banking interests of the state, the only people who really have shown any genuine interest in ridding the state of the banking and investment frauds. The general public scarcely knows that we exist. It appears to have forgotten entirely the kind of frauds in which it is no longer victimized. Public interest in the Blue Sky fight is rarely shown except in occasional outbursts of protests from people who cannot understand why the state interferes with their "God-given and constitutional rights to throw away their money any way they please" and in quite indignant tones take us to task because they are no longer afforded the old oppor-

tunities for losing their money in mining schemes, oil frauds, and bucket shops.

Now, in order to bring home the true situation and show how little cause there is for congratulations and how much need there is for active, aggressive work, let me briefly outline the history of the Securities Act and its administration to date.

To begin with, Blue Sky legislation in Pennsylvania, as in other eastern states, had been violently opposed for many years on the grounds that Blue Sky laws were not effective in preventing fraud and did unnecessarily interfere with legitimate business. The fear of unfair political interference with legitimate business was natural and wholly justified, for what could be more outrageous than to have political bias pass on the question of a man's right to engage in business?

In the 1919 session of the Pennsylvania legislature a proposed Blue Sky Law was killed with the promise that a model law would be prepared for the 1921 session. In the 1921 session the entire matter was forgotten. Then came the great bull market of 1922 with its unprecedented failure of bucket shops and something had to be done in the 1923 legislative session. All the people opposed to any kind of Blue Sky legislation, and all the people who thought any kind of Blue Sky legislation was better than no Blue Sky legislation at all, then got together and actually succeeded in compromising their differences.

To what an extent the Pennsylvania Securities Act was a piece of compromise legislation is perhaps best illustrated by the manner in which its enactment and approval by Governor Pinchot on June 14, 1923, was announced. All kinds of apologies were offered for the new law, which by all parties was characterized as a weak, ineffective law, not a true Blue Sky law, nor a law with any real teeth in it, but the best that could be had at the time. Most of the people who had had anything to do with amending the law during its passage felt obliged to explain and apologize for the final result of their efforts.

Attorneys representing bucket shops and fraudulent promoters openly boasted that they had succeeded in introducing enough amendments to make the Pennsylvania Securities Act absolutely worthless.

### Still Has Teeth

**"**I T is merely a sop to public opinion, but gives the state no real authority or power to do anything," these attorneys stated publicly.

A careful study of the law as it then stood convinced me that the people who boasted about having emasculated the Act have not, by far, emasculated nearly enough for their purposes. In fact, in a written opinion I urged the passage of the Act as it stood on the grounds that it was good enough, and that any attempt to improve it might make it worse by opening the eyes of hostile interests to the many little things they had overlooked in their attempt to make the law worthless. I rather emphasized this opinion by offering, immediately after the passage of the Act and its approval by the Governor, to demonstrate to any person appointed for the purpose of administering the Act how he could make it effective within six months.

Then after the passage of the Act and its approval by the Governor, I happened to be one of the two new deputy secretaries of banking appointed under the new law for the purpose of administering and enforcing it. This, of course, was a very pointed manner of challenging me to give my promised demonstration of the value of the new law.

It was with some degree of satisfaction that within three months I learned that a fraudulent promoter barred from Pennsylvania under the new law made a demand upon his attorney for the unconditional return of a thousand dollar fee on the grounds that the emasculation of the new law had been misrepresented to him. It undoubtedly had, because the ouster of this promoter from Pennsylvania under the new law has since been sustained as legal and constitutional by the highest court in the state.

From the start, therefore, the Bureau of Securities in its administration of the Securities Act has been absolutely non-political.

The law simply provides that every dealer in securities and every agent or salesman of the dealer must, before he can either sell securities or solicit subscriptions in any manner, submit to examination and be granted a certificate of registration. It is provided by the law that the examination of the dealer and the agent or salesman shall be directed along two general lines:

1. His "previous history, record and association."

2. His proposed plan of business with reference to its "fairness, justice and equity."

### "Equity" Especially Useful

**T**HE words in quotations are quoted directly from the Securities Act, and are the magic measurements which we have succeeded (Continued on page 449)

# The Hum of the Coining Presses

By MITCHELL IVES

**The Federal Mints Break All Records During 1925 by Striking Off Double Eagles Having Value of \$250,335,000. Have Unique Distinction in Being a Government Institution Run at a Profit. All Three Mints Running Overtime to Meet Demand.**

THE United States mints run along so quietly and unobtrusively that the outside world, while transacting its business daily with the coins that they strike off, hardly ever hears much about what they are doing.

Indeed, there are scarcely a handful of people who know that the three Federal mints at Philadelphia, San Francisco and Denver shattered all records during the past fiscal year for minting gold. They struck off these glittering coins having a value of \$250,335,000 and thereby set a mark for prodigious output that has never been equalled in the history of this country, whose first public building was a mint. The three mints did not devote all of their time to producing double eagles, however, for they executed 18,308,000 of the silver dollars and made more than 159,000,000 smaller coins.

## Are Real Money Makers

IT would be idle to dwell upon the importance of an institution that supplies the people with their pocket change. The country could not get along without the mints. Yet they are unique among government agencies because instead of imposing an expense on the Treasury, they are, in reality, money makers. In producing the silver, nickel and bronze coins, the mints made a profit of more than \$7,000,000 for Uncle Sam last year. The source of this tidy return is seigniorage—that ancient right of a state which permits the charging of a royalty for the minting of a coin. A single ounce of silver bullion will make about \$1.37 in fractional silver coins. The silver now may be purchased for around sixty-nine cents—so it may be seen that the government makes a handsome profit in producing the halves, quarters and dimes. There is an even larger return in manufacturing one-cent pieces because the cost of production is hardly more than a quarter cent each.

It is a different story when the coinage of gold comes into consideration. It is the one commodity with an invariable value, for Congress fixes this by law. If any gold coin were melted up, it would be found to have its face value in the precious metal. So the expense of fashioning the gold bullion into an American coin falls on the Treasury, as there is no seigniorage on gold.

There used to be far more gold in circulation than there is now, especially in the West. There is more than one reason for the change in the money carrying habits of the Americans, however. Keeping gold in circulation is costly for constant usage abrades the coin and causes its surface to wear off. When the worn coins are turned in

to the mints, they do not redeem them at face value. The gold is melted and the owner is given its actual value as determined by weight and not by the denomination of the coin. So if banks accumulate a large number of excessively worn gold coins and seek to have them exchanged for other coins, they may stand a substantial loss. A number of the banks in the West experienced this bitter lesson in the days following the appearance of the new Federal Reserve notes when the public clamored to exchange its gold for the new paper bills.

Then, too, the Treasury seeks to discourage the use of gold as counters of exchange, because the popularity of gold as money is more or less limited to the holiday seasons and enjoys a brief life before it comes rolling back into the Treasury. Unless the public likes to use a certain kind of coin or money, the government has found that there is no use in trying to force it into circulation. It may be sent out by the banks but it promptly is returned. When the banks discover that the public is disinclined to accept it, they pour the coins into a sack and send them to the Federal Reserve Banks to be exchanged for the coins that enjoy common acceptance.

For the first time in many years, the Denver mint has been striking off the golden quarter eagles, which are worth \$2.50. The small gold pieces are being executed to meet the Christmas demand of the banks, whose customers want to give gold for Christmas gifts. The mints have not sought to stimulate the demand for these quarter eagles for they know that in due time the gold coins will come back and the government would be put to the expense of remelting them.

## Seasonal Demand for Money

THERE is a seasonal demand for money, as well as for commodities. During the period from Sept. 1 to Dec. 15, the full capacity of each mint is taxed to meet the demand of banks for coins of all denominations. There might also be said to be a fashion in coins, for in some years the requirements for dimes can hardly be met, whilst the following year may bring practically no special demand for the ten cent piece.

Just recently the western banks have been calling for half dollars. This denomination was the most unpopular coin that the mints struck off last year. The present popularity of the half dollar is probably due to two main reasons: The Treasury has been seeking to restore the silver dollar to favor be-

cause it would save the government at least a million dollars annually if the "cartwheel" could be made to circulate in large numbers and thus reduce the demand for the short-lived dollar bills. The people have rejected the silver dollar but the banks find they will carry the half-dollar more joyfully, so the campaign is proving to be a partial success, at any event. The other reason grows out of the realization that the silver producers may obtain a higher price for the white metal which is produced in the western states, if silver is used more generally in the monetary systems.

For weeks the three mints have been running overtime to keep up with the orders. Capacity operation in the fall is not extraordinary for about this time every year, there is a normal upturn in the business of the money making establishments but the average pickup would not account for the present large orders. Those who have followed the operations of the mints for many years point out that the hum of the coining presses means the booming of business—but rather it is in the other sequence for expanding business brings with it the need of more money. The mints, they will tell you, are splendid barometers of business.

Just now the mints are ahun with activity and coins are being shipped just as fast as they can produce them. It is the purpose of the Treasury Department to balance its stock of silver and minor coins with the needs of the banks, for it is a wasteful policy to stock up with large amounts of unused subsidiary and minor coins. The cost of the metal represents an investment of the government, which should not be allowed to escape into inactive stocks lying in the vaults of the mints. Until silver is coined the government cannot issue silver certificates against the metal. It takes foresight and judgment to avoid overstocking in the wares of the mints but yet the government wants to give the people just the kind of money they crave.

## Why Gold Is Coined

IN view of the lack of favor for gold as a circulating medium, it doubtless seems strange that the mints should produce the greatest amount of gold coinage in the history of the country. It is almost certain that the bulk of the coins will remain in the secured vaults of the mints and never see the light of day. Inquiring into the reason for this activity, it is found that there is a provision of law that requires the mints to take up this golden job. It provides that at least one-third of the gold certificates

(Continued on page 452)

# Playing With Money

By ORRIN C. LESTER  
Bowery Savings Bank, New York

## In Giving Investment Advice, Bank Must Be Extremely Careful. Most Persons Seek Counsel Too Late. Savings Bank Must Face Lure of Higher Interest Rates and Realize Competition is Real. Almost Universal Lack of Plan in Management of Money.

**S**OMEONE has made the statement that a billion dollars was lost last year by the American people in fake schemes of speculation.

How nearly accurate that figure is I suppose it would be hard to prove. There doubtless is a great deal of money wasted in this way that is never heard about, because the promoter of the scheme manages to conceal his operations and the innocent person who loses his money is ashamed to let it be known.

Whatever the amount is that is lost, it is a great menace to the common good and should command the vigorous and cooperative action of banks everywhere.

Economic waste in any of its forms is evidence of ignorance, and I suppose that a large percentage of this waste in foolish speculation could be traced to the so-called uninformed classes who are least able to judge the merits of an investment and who least can afford to lose their money. That makes the problem all the more serious, since the poorer classes of people are the ones who most need to conserve their savings and to plan wisely for their future needs.

### The Tragedy of Mis-investment

**A**BANK that has put itself in the position of personal economic adviser of its depositors and the people of the neighborhood in which it is located, is familiar with the typical cases of mis-invested money and the tragedy of such experiences. Anyone who has been intimate with such cases cannot help being impressed with the thought that many persons of limited savings and relatively small incomes would be eminently better off if they stuck to a simple program of regular savings bank deposits; a program of life insurance adequate for the protection of their families, and stayed out of the investment game altogether.

A young woman has just asked my advice about investing in San Francisco street railway stock. I asked how much she had in mind to invest, and she said "\$300"—that is her entire savings. Obviously, she has no business investing in street railway stock any place, or in anything else. She belongs in the savings bank, as does everyone with any such small sum.

A widow who had been left with considerable money, some of it invested and some in cash, came in to consult with me on how to invest \$5,000 which was then in three different banks. It happened that one of the banks—a perfectly good bank—paid 4½ per cent, and the other two, including

our own, paid 4 per cent. She was a nervous person, already much wrought up about the soundness of her securities, and my answer was, "Take your money out of the two 4 per cent banks and put it in the 4½ per cent bank, which will be almost as good as the investments I would be willing to recommend."

And certainly, no one would attempt to refute the position that one who works hard for his money should never speculate.

### After the Fatal Step

**T**HE unfortunate thing about most persons who seek advice about investing their money is that they seek it too late. They have already taken the fatal step and want to find out if there is any way to recover. The first thing the banks wants to accomplish in this direction is to persuade people through advertising and contacts of various sorts that they should come to the bank and talk over their money matters before they go into any uncertain investment. If every bank could approximate a condition like that with its depositors and a reasonable percentage of the general public, fake schemes would go begging.

Some weeks ago, a man came in to talk with me about investing in Florida land. It was evident at once that he had been worked up to a high state of enthusiasm over the fortunes that are reputed to have been made in Florida over night, and I saw that an attempt to change his mind was futile. I finally advised him that if he insisted on taking the chance he should not deposit any money until he had a contract showing the particular property he was to get, with the price and the terms of payment.

A few days later, he came back to tell me that, contrary to my advice, he had sent to an alleged friend in Florida \$3,500 (all he had); that the money had been placed on an altogether different piece of property than the one he had wanted to buy; and that he was either obliged to take that piece, at what he had learned was an exorbitant cost, or to take a note for his \$3,500, to be paid back at some future time and without substantial security. It then became a case for a lawyer, and I could do no more for him.

It has been my experience that, unlike our friend who persisted in putting his money up on Florida land, the average person who comes to the bank before investing is looking for honest guidance, and, in most cases, is ready to accept good advice. They make mistakes because they do not know.

It is a common thing for people to come to our bank with perfectly legitimate matters of investment, which are sure to cause them embarrassment later on because of little things that they have overlooked in the transaction. A woman was about to buy a house with a first and second mortgage, the second to be paid off in semi-yearly installments, but to come due and be paid in full in three years. At the end of the three year period, \$3,000 was to be paid, which she had entirely overlooked and which she had no assurance of being able to meet.

### Banks Must Be Specific

**I**T goes without saying, of course, that the bank must be equipped to give intelligent advice if it expects to command the confidence of those who seek its services. The person or persons who handle this work must know more about investments than merely to caution people against everything except the bank. We must be unselfish and liberal and substantiate our advice by actual knowledge of the facts. Of course, no one can be familiar with every source of investment, either sound or unsound, and when we do not know, we should make every effort to find out and not pass it off with the general remark, "Well, I don't know anything about it, but I am sure it's highly speculative."

Manifestly, the matter of giving investment advice is a serious business for the bank as well as for the customer. If it goes far enough to be of practical value, it naturally has an element of danger. Like dynamite, it is dangerous unless it is handled by careful people.

An opinion from a banker on money matters is tantamount to advice in the minds of those seeking information. Careful as one may be in an effort to impress the fact that there is an element of risk in every investment and that the investor must assume the final responsibility, yet his judgment is held to be infallible, and he alone is denied the common right of all men—occasionally to be wrong.

But that, in my judgment, is not an argument against the service. I personally think that every bank, and particularly every savings bank, should be prepared to go the limit with such information and advice, based always on facts, of course, and not on mere personal opinion. For to what source can the average savings bank depositor turn for honest information and sound advice if the savings bank is not prepared to give it?

*(Continued on page 462)*

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#### New Books

**PRACTICAL BANKING.** By G. W. Jamieson, Instructor in Practical Banking, Extension Division, University of Wisconsin. 214 pages. Price \$2. McGraw-Hill Book Company, Inc., New York.

This is an elementary treatment of the practical work of a bank for those employed in banks, for those seeking bank positions, and for business executives who wish to know how a bank works and what it can do to help them in their business. The book discusses the organization of a bank, what the various departments are, how they operate, and the various services a bank renders.

**FINANCIAL HANDBOOK.** R. H. Montgomery, editor. 1748 pages. The Ronald Press, New York.

This is a compact volume which covers in a concise, clear manner a very wide range of business subjects. It is intended for constant reference by all who have in any way to do with the finances of a business.

**HOUSEHOLD GOODS WAREHOUSING IN THE UNITED STATES.** By Clarence A. Aspinwall. 310 pages. \$6. American Warehousemen's Association, Washington, D. C.

This book treats of an industry which has developed in the last fifty years and has grown to be a not unimportant branch of business. All ramifications of the business are discussed from the selection of a site for this type of warehouse through to the legal aspects of the business.

**AN ECONOMIC HISTORY OF RUSSIA.** By James Mavor, M. A., Ph. D.

R. R. S. C., Emeritus Professor of Political Economy in the University of Toronto. Two volumes; 630 and 614 pages. E. P. Dutton & Company, New York.

Originally published just before the outbreak of the Great War, this work was well received in England, the United States and Russia. In the two former countries, it became the standard book on its subject and passed quickly out of print. In Russia it was warmly commended by articles in the leading reviews.

The first volume of this work, "The Rise and Fall of Bondage Right," begins with a sketch of the early economic and political development of Russia up to the middle of the eighteenth century. It offers a new explanation of the origin of serfdom and outlines its history, describes in interesting detail the reforms of Peter the Great, and Russia as an industrial country during the eighteenth century until emancipation. The second volume, "Industry and Revolution," is virtually a history of the revolutionary movement in Russia, including descriptions of the great Pugachev Peasant Revolt, the Revolution of 1905, the Nihilist movement, the rise of revolutionary parties, etc. The new edition is revised throughout; but there is no radical alteration of the text.

**WAREHOUSING.** Trade Customs and Practices; Financial and Legal Aspects. By H. A. Haring. 787 pages. Price \$10. The Ronald Press Company, New York.

"The commercial warehouse represents one link in the distribution of goods from source to consumer, and is ever increasing in importance," says the author. "It is, also, one step in the marketing of goods which achieves great economies; it cuts cost.

"Yet the business of warehousing, in its many types, has grown so rapidly and has so imperceptibly interwoven itself into the fabric of commerce that many of its economic services are not generally recognized. To set forth present-day practices and principles of the warehouse is the purpose of this book. It is designed to benefit equally the warehouseman and his patron, the banker and the underwriter, as well as all who are interested in the broad subject of marketing.

"To a large extent the owner of warehoused goods, the banker who loans against such goods and the underwriter who insures them, have had at their disposal little in the way of information about the warehousing business."

**THE FOREIGN EXCHANGE MARKET.** By H. F. R. Miller. 152 pages. Published by Edward Arnold & Co., London. Distributed by Longmans, Green & Co., 55 Fifth Avenue, New York.

This book, written by a British author, gives a rather practical description of the post-war mechanism of exchange, showing how the rates of exchange are decided in the market. To prepare the reader for a comprehension of the theory of foreign exchange, the author presents a simple statement of the theory of money and of the credit system. Its chapters describe the mechanism for foreign exchange payments, the rate of exchange, the influences affecting in the rate of exchange, foreign exchange arbitrage, the silver exchanges and tells how to read the foreign exchange article.



## *A Broad Investment Service*

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# The Condition of Business

**Advancing Industrial Production, Fuller Employment, and Expanding Trade Feature Business Situation. Reaction in Stock Market Not Significant of Any Change in Business. The Year 1925 One of Widespread Prosperity. Some Forces Now at Work.**

**W**HOLESOME prosperity has continued to characterize the general business situation during the past month. Industrial output has shown further advances in many lines. Factory employment and payrolls have expanded and many leading indexes of distribution and general trade activity have averaged far above the levels of previous years. Yet the continued absence of any marked rise in commodity prices indicates that the upswing in business has not taken on the unfavorable characteristics of a "boom."

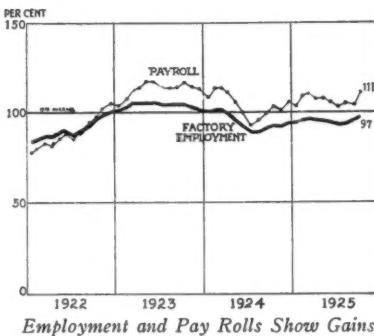
The general level of basic industrial activity increased by about 4 per cent in October, according to the Federal Reserve Board's index, which covers twenty-two lines of industry and is adjusted for normal seasonal changes. Average daily iron and steel production increased an additional 7 per cent in October, and in November further slight increase in operations to about 85 per cent of capacity was reported at steel mills. Unfilled orders of the United States Steel Corporation rose nearly 400,000 tons in October to the highest level since the end of April. In November, railway buying supplemented active demand from other consuming industries, and purchasing for the first quarter of 1926 was generally reported in increasing volume.

## Automobile Production High

**A**LTHOUGH the record production of passenger automobiles in October was due partly to the temporarily curtailed output in August and September, the output for the three months combined was much above that of any corresponding three months, excepting 1923. In the textile industry, the New York Federal Reserve Bank's indexes of woolen mill activity and cotton consumption rose about 90 per cent of the estimated normal, compared with 77 to 78 per cent during the summer, and the index of silk consumption reached the highest level since March.

Bank deposits outside of New York City, which closely reflect general business conditions, reached new high levels for the season, 15 per cent higher than a year ago, compared with gains of 12 per cent to 13 per cent earlier in the year. These increases have not been confined to the larger cities, but have been widely distributed throughout the smaller cities as well. Railway shipments of merchandise and miscellaneous freight, while seasonably lower after the middle of October, continued above all previous years. Wholesale trade was in larger volume than for any month of the past five years, and retail sales through department and chain stores, and through mail order houses were unusually large. As shown in the diagram on this page, employment at

representative factories throughout the country increased in October to the highest point since early in 1924, and average weekly earnings of factory workers were the highest in several years.



Employment and Pay Rolls Show Gains

## Stock Market Reaction

**T**HESE recent developments in the business situation, interesting though they are, have been outweighed in popular discussions by the fairly large reaction in the stock market in November, but which was without significance as to the business situation. During October and early November, it will be recalled, the volume of trading on the New York Stock Exchange exceeded all previous levels, and average prices of representative stocks soared to further new high records for recent years. Later in the month, however, following advances of  $\frac{1}{2}$  of 1 per cent to 4 per cent in the rediscount rates of the Federal Reserve Banks of Boston, Cleveland, Philadelphia, and San Francisco, average prices of industrial stocks reacted to levels approximately 10 points below the maximum.

These advances in the rediscount rates, which left the New York Federal Reserve Bank the only one with a  $3\frac{1}{2}$  per cent rate, were a natural consequence of the expansion in credit in the interior districts since the first of the year. In contrast to developments last year when most of the increase in loans on stocks and bonds at member banks occurred in the New York district, the expansion in such loans since the first of 1925 has been largely in districts outside of New York. The following table compares the changes in loans and investments of reporting member banks in the New York district and in principal cities of other districts since the first of the year.

In addition to the expansion in loans on stocks and bonds, other considerations behind the advances in the discount rates of out-of-town Reserve banks presumably included the relation of their rates to the open-market rates, and the increasing use

that the member banks in those districts had been making of the official rediscounting facilities. At the New York bank, however, discounts by local member banks, after declining substantially during October, were stationary in November at a level not far above mid-summer and well below the high point for the year, reached last February at the time the New York bank's rediscount rate was raised from 3 to  $3\frac{1}{2}$  per cent.

(In Millions of Dollars)		
New York District:		
	Nov. 18, 1925	Change since Jan. 7
Commercial loans .....	2,619	—101
Loans on stocks and bonds .....	2,433	+218
Investments .....	2,156	—125
Total loans and investments .....	7,208	—8

## Other Reporting Centers:

	Nov. 18, 1925	Change since Jan. 7
Commercial loans .....	5,810	+122
Loans on stocks and bonds .....	3,153	+670
Investments .....	3,254	—20
Total loans and investments .....	12,217	+772

## England Resumes Foreign Lending

**T**HE lifting in November of the embargo which had been placed on foreign loans in London prior to the return to the gold standard, in order to reduce the risk which it was felt might attend that change, was generally regarded as the last important act for giving complete freedom to the London market. It was taken to indicate that the British financial authorities were convinced that the biggest risks which attended the return to a free gold market have now passed, and moreover it was hoped in London that through the resumption of foreign loans, trade activity would be stimulated by giving foreign borrowers increased purchasing power in British markets. At the same time, however, there was some uncertainty as to how the resumption of foreign lending would affect the money situation in London. As a result of the fairly heavy loss of gold in the past two months, the British credit basis has contracted to such an extent that money has become scarce, with the rate for three months' bills practically up to the bank rate. This led to The Bank of England advancing its rediscount rate to 5 per cent on December 2.

The conclusion on November 14 of an agreement for funding the Italian debt to the United States (subject to approval by the respective legislative bodies) and the successful flotation in this market of a \$100,000,000 loan for the Italian government, mark another important step in the economic recovery of the world. The Italian budget has been balanced and her foreign trade position has returned to about normal. The purpose of the recent loan is not to provide

(Continued on page 433)

## The Two-Fold Accomplishment of Joint Stock Land Banks



**T**HE primary purpose for which the Joint Stock Land Banks were established and which they are fulfilling so successfully, is that of offering the farmer cash for borrowing purposes at a stable, reasonable rate.

The need of agriculture for some standardized system of credit had, for years, been recognized as a weak point in the economic structure of the nation. Other industries had ample credit facilities at their disposal. They could borrow at reasonable interest rates, because, being organized, and in direct contact with friendly banking interests they could secure advantageous terms.

### What the Farmer Faced

The farmer, on the other hand, was in no such strong position. He had to borrow wherever he could—from local banks, insurance companies or private individuals—although his security (productive farm land) was the best in the world.

The whole banking and financial structure of the nation had been developed to supply the needs of every industry but his. The entire farm mortgage business, representing an annual turnover of a billion dollars, was conducted almost wholly without supervision and without definite plans. The farmer was forced to pay whatever rates the lender chose to demand, and to sign an obligation on terms he could not hope to meet.

It is significant that American farming was able to maintain itself in the face of obstacles which had been removed from the path of the other great American industries for over a generation.

### The Government's Remedy

The Government finally recognized this situation and passed the Federal Farm Loan Act. It created the Joint Stock Land Bank System. These banks were designed solely to provide an equitable credit system for agriculture—with practical and assured protection both for the borrowing farmer and the lending investor.

### One Accomplishment

For the farmers, these banks provide a source of stabilized credit under strictest government supervision. They provide long term credit, for the first time easily and readily available, and the opportunity to liquidate such obligations through serial repayments—much as the funded debts of other industries are liquidated.

### The Other

For investors, these Banks created marketable obligations, Joint Stock Land Bank Bonds secured by Government-supervised loans, declared to be instrumentalities of the Federal Government and, by law, as *completely tax exempt* as the First Liberty Loan 3½% Bonds. Thus, the Joint Stock Land Banks have accomplished a double purpose. They have permanently strengthened the farmer's financial position, and, through Joint Stock Land Bank Bonds, they have opened a new and attractive field for investment to the general public. That this field has a strong appeal to intelligent, conservative investors is evidenced by the premiums at which many of these issues are now being marketed.

The Guy Huston Organization—a complete organization of financial, land and bank specialists—affords Joint Stock Land Banks a broad, basic and helpful service. The facilities of this Organization are extended not only to Joint Stock Land Banks, but to Investment Bankers and institutions desiring information or reports covering any phase of Joint Stock Land Bank operations or securities.

## GUY HUSTON ORGANIZATION

61 BROADWAY  
New York

208 SO. LA SALLE ST.  
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## WINTER OPPORTUNITIES for Travelers Cheque Sales

TRAVEL Recreation knows no season. Every month in the year the world is dotted with Americans—dispensing their personal sunshine, and spending their good American money. Not long ago Summer was the great travel season. Now the general desire to get away from Winter, makes Winter equally important.

Consider the principal Cruise-Tour offerings for the coming Winter:

- 7 *Separate and distinct Cruises 'Round the World.  
All on magnificent ocean liners.*
- 11 *Cruises to the Mediterranean.*
- 10 *Cruise tours to the West Indies.*
- 3 *South American Cruises.*
- 1 *Great African Cruise—east coast of South America—  
across the South Atlantic—down the west and up the east  
coasts of Africa—Red Sea—Suez Canal—Mediterranean  
and The Azores.*

From 300 to 700 passengers will be booked for each of these cruises, representing, in tariffs, from half a million to two million dollars per cruise, with a like amount estimated for personal and shopping expenditures. Returning, every trunk will be bursting, every stateroom crowded with personal packages—the holds of every ship will be full of purchases made in the countries visited.

The Banks' interest in this enormous travel business is one of *Safe Money Service*. Theirs the responsibility of supplying this horde of American travelers with a safe and everywhere serviceable form of travel funds.

Progressive Banks everywhere, alive to the now established change in travel habits, are rendering a service to their patrons when they recommend AMERICAN EXPRESS TRAVELERS CHEQUES.

**American Express Co.**  
**65 Broadway, New York**

OFFICES IN ALL THE PRINCIPAL CITIES

(Continued from page 430)

funds for expenditure, but to furnish a reserve to be used in assuring the success of an exchange stabilization program. Including the Italian debt agreement, ten countries have now funded their debts to the United States, and the total obligations now funded amount to over \$7,000,000,000. By the terms of her compact, Italy agrees to pay a principal amount of slightly over \$2,000,000,000 in annual instalments over a period of 62 years, together with interest beginning after 1930 and ranging upward from  $\frac{1}{2}$  of 1 per cent annually between 1930 and 1940 to 2 per cent annually in the last seven years from 1981 to 1987. Payments of \$5,000,000 are to be made in each year up to 1930 and thereafter amounts gradually rising from \$12,100,000 in 1931 to \$79,400,000 in 1987. This method of payment is different from that of the British and Belgian debt settlements which call for payments of practically constant amounts after the first ten years.

AS the year 1925 draws to its close, business men are generally taking stock and looking ahead to the future. The year as a whole has been one of active business and widespread prosperity. Industrial production has averaged much higher than in 1924 but has fallen short of 1923. As we now know, however, manufacturers two years ago were still working in expectation of large accumulation of goods by merchants for a future market. This expectation was not fulfilled and over-production followed, with the result that a large part of the output piled up in the hands of manufacturers and wholesale merchants. While productive activity this year has averaged somewhat smaller than in 1923, goods have moved rapidly into the hands of consumers and the total volume of purchases of all kinds has been unusually heavy.

Two features which have been characteristic of business for some time are the tendency to short commitments and prompt deliveries. The continued willingness of manufacturers and merchants to depend on short commitments has resulted largely from adequate manufacturing capacity, and relative absence of labor troubles, combined with increased transportation efficiency. This situation has also made unnecessary any marked competition for goods and its accompanying rise in commodity prices. The absence of rising prices and accumulating inventories in turn has been reflected in relatively moderate demands for bank credit for commercial purposes and comparatively easy money conditions.

EMPLOYMENT has been full, both in factories, in the building industry, and in many other lines, and urban purchasing power has been high. The principal crops have been abundant and prices realized by the producers have been fair. The very large corn crop has made cattle and hog raising more profitable again, and the bumper cotton crop has tended to stimulate the textile industry.

Not only has business activity been large in volume, but it has also been unusually profitable. A tabulation prepared by the Federal Reserve Bank of New York covering ninety-nine representative corporations in many classes of industry shows that although profits in the third quarter of 1925

were slightly below those of the second quarter, they were otherwise the largest in more than three years. For the three quarters combined, earnings were the largest of any recent year, and about 10 per cent larger than in the whole of 1924. Considering the companies by classes of industry, it was found that in all industries except iron and steel the nine months' earnings exceeded those of the corresponding periods in either of the two preceding years.

IN general, the forces which have made for widespread prosperity during the past year have been substantially the same as those operating in the two preceding years. At the close of the war, it will be recalled, a huge deficit had accumulated in the construction of residential buildings and in the installation of railway equipment, and the recovery in business activity which began in 1922 had as its principal sources of strength the pressure for making good these deficits. Business was generally carried on with efficiency. As a result, the average product per worker was high and purchasing power of the urban worker was correspondingly large. There developed in consequence an active demand for many forms of consumers' goods. The movement of city populations to the suburbs was an important factor in stimulating the demand for automobiles and improved residential buildings, and the easy money conditions which developed as a result of the immense gold inflow made it easy to finance instalment buying. To these factors was added in 1924 and 1925 the immense improvement in farm purchasing power as a result of the good crops and higher farm prices.

In some respects at least these forces are becoming less powerful. The very active building boom has led in many places to some oversupply of high-priced and medium-priced apartment houses—a situation which is reflected in slight reductions in rentals in many sections, a larger supply of vacant apartments offered for rent, and a very cautious policy on the part of many large lenders on mortgages. In the case of automobiles the very large sales of the past year have resulted from the introduction of new models and improved accessories at a time when purchasing power of the people was generally high, and some observers are inclined to question to what extent a similar combination of forces will soon recur. Widespread reports are found of a very large increase in instalment buying, not only in the case of motor cars, furniture, and similar goods which usually last for several years, but also of clothing and other commodities which are consumed quickly. In other words, the large demand for commodities recently has come about not only through a high level of purchasing power as a result of present income, but it also represents to a larger extent than heretofore the anticipation and mortgaging of future purchasing power. This, it is felt, may result in a subtraction of purchasing power at some future time.

The general consensus of opinion, however, is that while these minor dangers exist, they do not affect as yet the main body of the business structure, and that there is reason to expect the continuance of very good business for several months to come.

TRADE **YALE** MARK

*The keys  
are sealed*



by  
**Yale**

WHY not let your customers be the first to see and handle their Safe Deposit Box Keys?

Why should your employee be compelled to handle and give out unprotected keys to safe deposit customers when the customer should take that responsibility and will gladly take it?

The Yale "Sealed-Key" Safe Deposit Lock is the safest lock. It is economical, free from complications, and will advertise itself and your bank through pleased customers.

In new equipment specify Yale "Sealed-Key" Safe Deposit Lock. Write for further details.

**The Yale & Towne  
Manufacturing Co.**

Stamford, Conn., U. S. A.

**Yale Marked is Yale Made**

# Organizing a Trust Department In a Small City

By WILLIAM HAMMOND

Trust Officer, Bank of Oregon City, Oregon City, Ore.

**W**HILE an actual, practical working knowledge of the law is of great benefit in the development of a trust officer, this does not mean that every lawyer would be a good trust officer. The desire to read and study, and a well developed bump of good common business sense, are each of equal importance. Furthermore, a trust officer, like Caesar's wife, must be above suspicion.

When I was asked by the president of our bank if I would like to accept the position of trust officer, I said "Yes" because I believed that it would give me a chance to help build an institution that, if built right, would go on helping the widow, the orphan and those who would be in need of business counsel after I had passed into the great beyond. Then I wandered back to my law office and did some thinking. In over fifteen years of experience as a lawyer, I thought I had learned something about trusts, but what did I know about the actual workings of a trust company? I looked through my law library and the other law libraries in our home town. I discovered that the various form books which are found in lawyers' offices contained almost no trust forms. If I were asked to build a trust agreement, where would I go to get my plans and specifications? If I were asked to suggest a form for a trust agreement, what would I suggest? When I was consulted as to what was the best method of keeping the trust accounts and records, what would I do?

## Why Lawyers Oppose

**I**BEGAN to realize why many lawyers are against the trust companies. In the first place, ignorance of facts always breeds such a feeling. Speaking as a lawyer, we know that trust companies cannot practice law. We know that no trust officer should draw a will which perhaps some day his department will interpret and carry out. We know, that no well informed trust officer will draw a trust agreement, if he can avoid doing so. Therefore, when we lawyers find one trust company doing these things, we are inclined to brand them all with the same brand.

The desired information was not forthcoming in the law libraries. My first real start came when I inquired at the Public Library in the city of Portland. There I found a copy of "The Modern Trust Company" by Franklin B. Kirkbride, et al. One of the best books I have found in studying this subject is "Trust Company Law" by John H. Sears. From this book a new trust department will find many of the im-

plications, constructive additions and implied limitations accompanying the activities of trust company business.

While the trust company business in the State of Oregon is still in its infancy, all trust companies stand or fall together. Weak trust companies profit from the confidence placed in high class trust companies. By the same token when one trust company falls below the standard which every trust company should maintain, every trust company suffers. Therefore, the other companies who have learned from experience, should be willing to pass their experience on, so that by helping keep standards high, they, too, may profit. With this in mind, I went to some of the trust companies in Portland, Los Angeles and San Francisco and found their officers ready and willing to assist me. By their generous aid I was able to gather a quantity of forms, with comments as to the usefulness of each.

In the various trust departments which I visited I found forms in books of varying size. We adopted a system where practically all the forms are of uniform size, and all fit the same loose leaf binder. This enabled us to use only one binder. Each trust is separated by a leaf having a celluloid tab, showing the name and number of the trust. This enabled us to start at a minimum cost with a system built on the experience of some of the oldest trust companies on the Coast, and we believe it is a system that will expand to meet our needs. Our papers are all kept flat in a vertical filing cabinet of legal size. This saves time in one item alone of doing away with the necessity of folding and unfolding papers. As so many trust papers are of legal size, a vertical file of a smaller size will not answer. It should not be necessary to add that a trust department is first, last and all the time, a matter of written records.

## Verbosity Hurts Business

**I**HAVE had many experiences which show that a long form has a tendency to drive business away. A comment of a Scotchman about a will which was drawn making our bank his executor and trustee, illustrates my point. He said, "The will is all right but I am sure it has too many words."

On the other hand a desire for brevity may lead to the edge of a law suit.

I believe in advertising, but even my limited experience in the trust business has shown that various forms of advertising do not always bring the expected result. After one has spent money for newspaper space advising the public to "have your own lawyer draw your will," and after one has mailed to each attorney more than one letter point-

ing out the fact that a lawyer who brings business to the trust department will be retained to carry out the legal end of that trust business, it is startling to find that a brother attorney is "flabbergasted" when his clients come back to him, to have him draw papers in order that a trust company may be appointed administrator, because he thought the bank's attorney would keep the business.

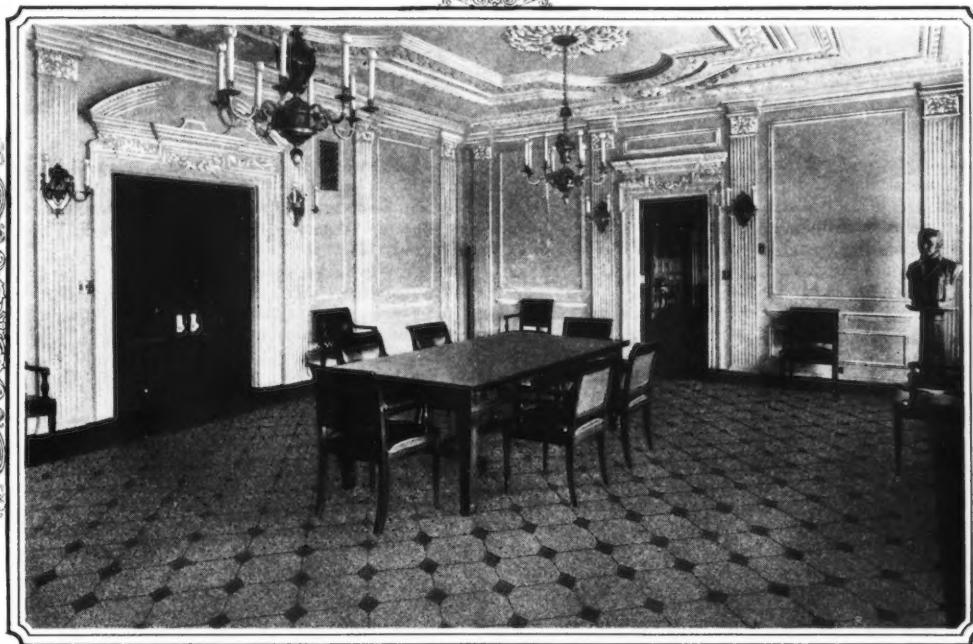
Our best advertising is the cooperation the officers and employees of our bank give, and our satisfied customers. I have found that a "Notice to Creditors," or a "Notice of Final Settlement" showing that we are actually probating an estate, is worth far more than numerous well worded advertisements which tell of our ability to probate an estate. The fact that a competitor is doing the same kind of business, is also a good advertisement. Our closest competitors at this time are in Portland. But I know that their being in business helps us, and I also know that there have been instances where the fact that we are in the trust business helped them get business. Two or three well managed trust companies in a town are better than one, and are an asset to each other from the standpoint of educating the people to see the desirability of trust business. Large cities are made up to a certain extent of people from small towns and this, therefore, is another reason why the trust departments in the large cities should render assistance to the trust departments in the small towns, for if we in the small towns do not maintain a high standard in trust business, we will send to the larger towns people who by our neglect, are educated to look down on the trust department of a financial institution.

## American Bankers Association Meetings

**T**HE Administrative Committee of the American Bankers Association assembled on December 10 at St. Louis. This meeting preceded by a day the opening day of the Mid-Continent Fiduciary Conference in that city.

Announcement has been made that the Spring Meeting of the Executive Council of the American Bankers Association will be held at Pinehurst, North Carolina, on Monday, Tuesday, Wednesday and Thursday, May 3, 4, 5 and 6.

With the exception of the sessions of the annual Convention, which are to be held next October at Los Angeles, these are two of the most important meetings of the Association held during the year.



*The directors' room of American Woolen Company of Shawsheen Village, Mass., illustrates how a floor of Armstrong's Cork Tile makes a handsome room more attractive. The design is 12-inch x 12-inch light tile with 3-inch dark inserts.*

## When Business Men Choose Floors

Men like the substantial, dignified appearance of tile floors in their business quarters, but they also want floors that are comfortable and quiet. That is why Armstrong's Cork Tile is so widely used in the directors' rooms and officers' quarters in banks and business houses—Armstrong's Cork Tile meets both requirements.

Armstrong's Cork Tile has all the distinctiveness that characterizes floors laid with separate tiles. Diversity of design and variations in shading and surface texture give the floor an individuality not attainable with the more commonly used materials.

As for comfort and quietness, these are inherent in the cork itself. Armstrong's Cork Tile is not a composition, but clean cork curlings compressed into tile form without any binder other than the natural gum of the corkwood. The result is a springy resilience that makes a floor of Armstrong's Cork Tile exceedingly comfortable and restful underfoot. It is almost perfectly noiseless, and is warm and non-slippery.

Armstrong's Cork Tile is a tough wear-resisting material, not readily marred or stained, and is easily kept clean. It requires no polishing or varnishing. Years of service leave hardly a trace of wear.

Write for a sample tile and the book, "Armstrong's Cork Tile Floors." They will be sent you promptly on request.

ARMSTRONG CORK & INSULATION COMPANY

*Division of Armstrong Cork Company*

176 TWENTY-FOURTH STREET, PITTSBURGH, PA.

*Also manufacturers of Linotile Floors*

# Armstrong's Cork Tile

# Bank Earnings Are Going Up

**B**ANK earnings are on the upgrade. The national banks, during the fiscal year of 1925, realized a return of 9 per cent on their invested capital. This rate, which represents the per cent that the net addition to profits bears to the capital and surplus, is the highest since 1921 and indicates that, with the return of better business conditions, the banks are enjoying a more satisfactory profit on their operations.

As a further indication that this improvement is general and not confined to the national banks, the Federal Reserve Board reports that the 1466 state banks and trust companies, which are members of the reserve system, enjoyed on their operations during the first half of 1925 a return of 12.5 per cent on the invested capital. While the national banks are compelled to be members of the Federal Reserve System, membership is optional with this latter group.

During the last six months of 1924, the state bank and trust company members reported net earnings at the rate of 10.6 per cent.

## Trend of Bank Earnings

THE earnings of national banks were at their height during the fiscal year of 1920 when they made 12.78 on their invested capital. This dropped to 9.40 in 1921 and the decline continued thus: 1922, 7.79; 1923, 8.48, and 1924, 8.11 per cent. Therefore, it may be seen that the results of the last year indicate a trend toward better times.

The Comptroller of Currency's report indicates better conditions all the way around. The gross earnings for 1925 were \$1,124,000,000, or \$49,000,000 more than for 1924. The total losses charged off amounted to a large sum—\$141,000,000, but this was \$6,000,000 less than for the preceding twelve months. Dividends declared by the national banks amounted to \$165,000,000, just \$1,000,000 more than for 1924.

In examining the profits made by the national banks, it is observed that the federally chartered institutions in the eastern states recorded higher earnings than those in other sections.

The ratio for the New England states was 7.61 on invested capital. Maine banks earned 9.68 per cent; New Hampshire, 9.50; Vermont, 9.83; Massachusetts, 8.98 (Boston 5.46); Rhode Island, 7.53, and Connecticut, 8.73 per cent.

THE eastern states apparently are the largest earners of all the national banks. The New York banks, outside of Albany, Buffalo, Brooklyn and New York City, reported 13.95 per cent on the capital and surplus. The New York City banks earned 11.44 per cent; Albany, 12.39; Brooklyn-Bronx, 8.41, and Buffalo, 11.27. New Jersey banks reported earnings at the rate of 13.21 per cent; Pennsylvania, 12.49 (Philadelphia, 9.21; Pittsburgh, 11.94); Delaware, 9.72; Maryland, 11.72 (Baltimore, 8.96), and Washington, D. C., 9.71.

The southern states reported that they had made 7.90 per cent on their combined capital and surplus. The middle western states earned 7.23 per cent, but the western states fared badly, earning only 2.69 per cent. The national banks in North and South Dakota, Montana, Wyoming and New Mexico reported a deficit for the year.

The Pacific states fared much better, reporting a 7.68 per cent return.

The honor of reporting the highest rate of earnings on invested capital goes to the national banks located in Jacksonville, Florida. They made 25.28 per cent on their invested capital during the year, while the other national banks in Florida reported a return of 20.36 per cent. The national banks in Indianapolis enjoyed earnings of 20.82 per cent, those in Birmingham, Alabama, made 17.24 per cent and the Louisville national banks reported a 17.35 per cent return.

## Gross Earnings Exceed Billion

THE following grand totals for 8070 national banks given by the Comptroller of Currency in his annual report, were:

Capital .....	\$1,369,385,000
Surplus .....	1,118,953,000
Capital and surplus.....	2,488,338,000
<b>Gross Earnings</b>	
Interest and discount .....	\$976,458,000
Domestic exchange and collection charges .....	16,828,000
Profits on foreign exchange department .....	12,573,000
Commissions and earnings from insurance premiums and negotiation of real estate loans .....	1,158,000
Trust department profits .....	5,951,000
Other earnings .....	111,129,000
Gross earnings .....	
	\$1,124,097,000
<b>Expenses Paid</b>	
Salaries and wages .....	\$218,073,000
Interest and discount on borrowed money .....	13,707,000
Interest on deposits .....	373,991,000
Taxes .....	65,798,000
Other expenses .....	127,145,000
Net earnings during year .....	
Recoveries on charged-off assets .....	\$798,714,000
	\$325,383,000
Total .....	
	\$365,069,000
<b>Losses Charged Off</b>	
On loans and discounts .....	\$95,552,000
On bonds, securities, etc .....	25,301,000
On trust department operations .....	622,000
Other losses .....	17,876,000
On foreign exchange .....	1,783,000
Net addition to profits during year .....	
Total dividends declared since June 30, 1924 .....	\$141,134,000
	\$223,935,000
Total dividends declared since June 30, 1924 .....	
	165,033,000
<b>Ratios</b>	
Dividends to capital .....	12.05 per cent
Dividends to capital and surplus .....	6.63 per cent
Net addition to profits, to capital and surplus .....	9.00 per cent

THAT banking is in better condition is indicated also by the decreasing number of bank failures.

Comptroller McIntosh reported that there were only 98 national banks to become insolvent during the year ending October 31, as compared with 138 for the preceding twelve-month period. During the last half of the year only 35 failed, as compared with 63 during the first half. Nine of the

failed banks were succeeded by new national bank organizations that purchased their assets and assumed the payment of the creditors in full. The great majority of the banks that had to close their doors were small banks, only 15 having assets as high as \$1,000,000, and 75 had a capitalization of \$50,000 or less. The total amount of assets of the 98 insolvent banks was \$47,637,945.

Discussing the bank failures, the Comptroller said:

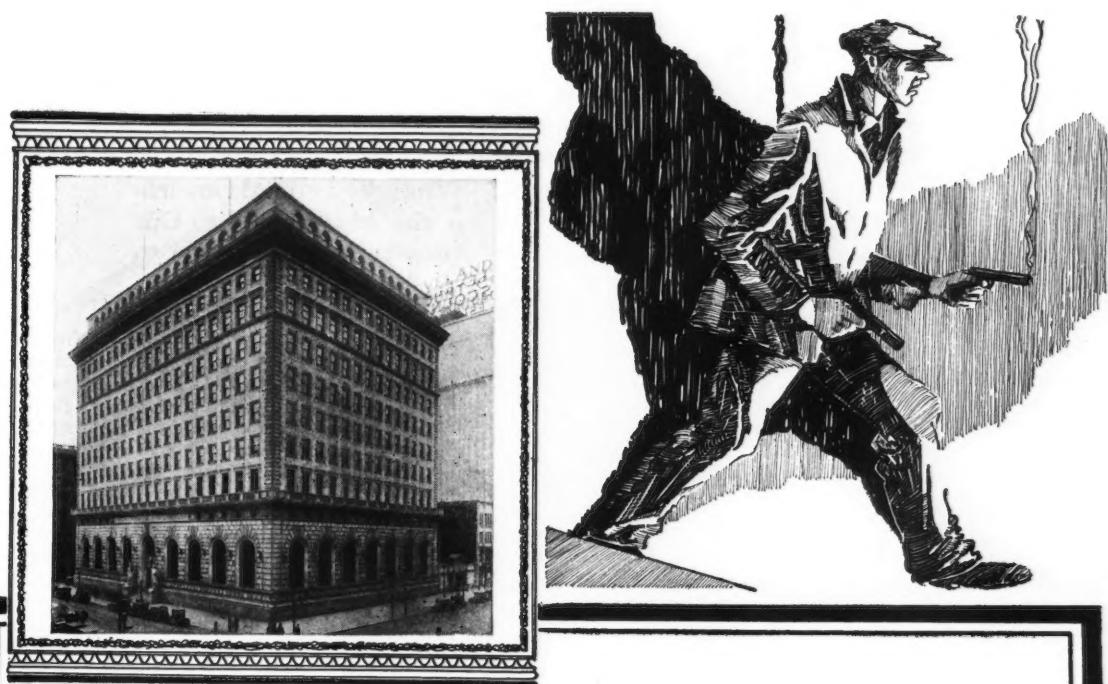
"It will be observed that a large majority of these failures were small banks and that the total assets of all were materially less than assets of any one of many of the urban national banks. Seventy-one of these insolvent banks were located west of the Mississippi River, 51 of which were in the grain country north of Kansas and 20 in the cattle country of the southwest. There were 15 failures in the three states of North Carolina, South Carolina, and Georgia. The remaining 12 failures were in various other states.

"While unfavorable agricultural conditions have contributed in a large measure to the closing of a number of these banks, still it must be borne in mind that the greater number of failures occurred where the territories had too many banks per capita and where too many bank charters were issued during the boom period of the war and immediately after peace was declared. Not only was there insufficient business for the support of these banks but their organization resulted in hazardous and unwarranted competition.

## Bad Crops Cause Failures

"UPON an analysis of the cause of these failures, it appears that 49 were due to economic conditions, crop failures caused by drought, and the fall in market prices for livestock. Thirty-nine were caused by inexperience and mismanagement by officers and directors and only 10 by the defalcation of an officer or employee of a bank. The first two named causes might be consolidated and attributed to strong competitive banking without the proper banking experience and banking ability, for, after all, the fact remains that there are many solvent banks remaining in these territories where the failures have been most prolific and that such banks are in charge of and have been managed by capable and experienced men who, under the strongest pressure of competition, have been able to loan and invest the banks' funds without incurring disastrous losses.

"Economic conditions in the territories where the largest number of failures have occurred are much improved and the banking industry is rapidly adjusting itself to normal conditions. It is believed that the experience gained by bankers in the past 10 years will be of great value to the banking business of the future and out of it will come better qualified bankers, more conservative management, and greater safety to depositors."



〔 The Federal Reserve Bank  
Cleveland, O.  
Holtzer-Cabot equipped 〕

## Away from the Spectre of the Yegg!

### A Confidential Booklet

For obvious reasons a booklet of this nature cannot be spread broadcast. It deals with the very latest thought on bank alarm systems and general signaling systems. It is highly informative, profusely illustrated, and written in a clear and interesting manner. Bank executives are invited to write for it. It will be sent gratis to any bank official requesting the same on his official stationery. Write TODAY.

1875-1925

This year marks the fiftieth anniversary of the founding of this concern.  
"Fifty years for stability"

Outside the bank entrance the high-powered car stands with engine idling. Strangers with determined faces enter, leaving hurriedly a few moments later in a swirl of dust.

Another hold-up! What a nightmare for bank executives everywhere!

Neither stringent laws nor stern judges will prevent this. The only factor making for hesitation on the part of the bandit is—will I get caught? For the yegg is a clever chap but a mighty poor gambler. He makes a complete survey and picks out only the "soft spots." If the alarm system installed in the bank on which he has designs excludes the possibility of his getting away then he goes elsewhere where the pickings are easier.

The Holtzer-Cabot Electric Company manufactures a bank alarm system that raises the possibility of the bandit's capture enormously—BEFORE HE GETS THE CASH.

No bank should be without it. To those equipped there is no crime wave.

**The HOLTZER-CABOT ELECTRIC CO.**

HOME OFFICE and FACTORY  
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CHICAGO OFFICE  
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SYSTEMS.  
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HOSPITALS  
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FACTORIES

# Hunting Out New Markets

By C. B. SHERMAN

**Production of Fruits and Vegetables Have Increased So Rapidly That New Outlets Must Be Found. What the Federal Government Is Doing in Europe to Widen the Market and to Cut Down Losses Due to Inadequate Knowledge of Transport.**

**C**OMMERCIAL production of fruits and vegetables has quadrupled within the past twenty-five years. Railway shipments have more than doubled in the past ten years alone. To keep pace with this tremendous increase in production it has been necessary to hunt out every practicable outlet and to develop each to its limit.

Foreign markets have therefore become increasingly necessary. The American apple grower now markets about 10 per cent of his crop abroad. Apple exports last year greatly exceeded one million barrels and five million boxes. The increase in exports of grapefruit to Great Britain and their successful disposal last year was considered almost sensational in fruit trade circles in the British Isles. It jumped from one of the rare exotic fruits seen only in large centers to a regular article of trade, stocked by all progressive wholesalers and most retailers. Considering the recent rapid increase of citrus fruit acreage in Florida this is a development of great moment to American growers.

The handling of this exportable surplus of fruits represents a primary governing factor in domestic markets and prices, and may cause the difference between prosperity or depression in some sections of American agriculture. The lack of real contact between the American fruit grower and his foreign competition and potential demand caused the U. S. Department of Agriculture to maintain a technical representative in Europe during all of the last fruit marketing season, and so successful were the practical results to the American fruit industry that the same representative has been sent back to represent us in Europe again this year, for the Department now believes that such representation given the farmer in his foreign markets by the Department is no less important than such representation in home markets.

## Broadcast Fruit Mart Information

THE representative chosen for this work is Edwin Smith, who not only had had several years experience in the Department's fruit and vegetable transportation investigations but had since served as manager of the Wenatchee Valley Traffic Association and as secretary of the Fruit Export Corporation and Northwest Fruit Growers Commission. Mr. Smith has been particularly successful in finding and sending back to this country the really practical information that American growers and exporters need and can put to immediate use.



Edwin Smith

Besides issuing these reports through the press, both daily and trade, and including a summary in radio broadcast reports, the Department of Agriculture mails mimeographed copies direct to interested parties. This direct personal attention has no doubt caused growers and shippers to give them closer attention than they might otherwise receive.

"The fruit grower in the Hood River Valley of Oregon who markets through his cooperative association may know that from 30 to 50 per cent of his apples are exported to Europe, but does he know whether they are exported and distributed beyond the seas with a minimum of waste and a maximum of efficiency? If he is elected to act as one of the cooperative's board of directors how is he to know whether his sales manager is using good judgment in the character of outlets used? And if the association has sent only one of its succession of sales managers to visit European markets during the past ten years, how is this grower-director to feel certain that his European agents are viewing his marketing problems eye-to-eye with the Oregonian's best interests?" These are some of the questions Mr. Smith asked himself when he undertook this mission.

"All Canadian and American apple growers know that European markets

have been a sickening succession of high prices, then gluts and 'red ink' returns. So much of a blind gamble has this European market game become that many of the ablest-managed apple marketing organizations practically ignore the existence of a foreign outlet. Why cannot our number of foreign consumers be increased by being supplied with some of these top-notch brands, and why is not this splendid merchandisability being spent beyond the three-mile limit?

"The Virginia apple grower each week gets back the account sales from his London, Liverpool or Hamburg broker, showing 2 per cent, 10 per cent, 25 per cent and possibly 50 per cent of his barrels 'slack' with sales from thirty-five cents to \$1.00 per barrel less than for tight barrels. What is a slack barrel? Is it actually worth less than the others? If some of his barrels arrive in Liverpool in a tight condition, why cannot they all arrive satisfactorily?"

And so he went the rounds, in his mind, of the problems of the American fruit growers who market abroad, from the prune grower of the Santa Clara Valley to the cranberry grower of Cape Cod. To develop a foreign service for these farmers such a close understanding of their problems is necessary that with a minimum of effort they may be placed in touch with foreign market conditions, so that they can comply adequately with foreign demands and deal intelligently with foreign competition.

The plan of the first year's work abroad was to secure as much specific information as possible on problems known to exist, and at the same time to develop plans for such permanent work as would function annually and to assist in regularizing supplies, eliminating waste and protecting American growers.

## Existing Markets Featured

DURING the active fruit marketing season, from August until the following April or May, first consideration was given to existing markets, and observation was limited to a very few commodities. Apples, oranges and grapefruit received the most attention. Existing demands were studied. The marketing peculiarities characteristic of individual cities and districts were transmitted to American fruit growers and shippers, and observations were made on certain subjects of concern to American growers and shippers. As markets in Northern Europe were covered, reports were written on twenty different marketing centers covering the following points: Channels of distribution, transportation and terminal facil-

Whatever your  
manufacturing  
process

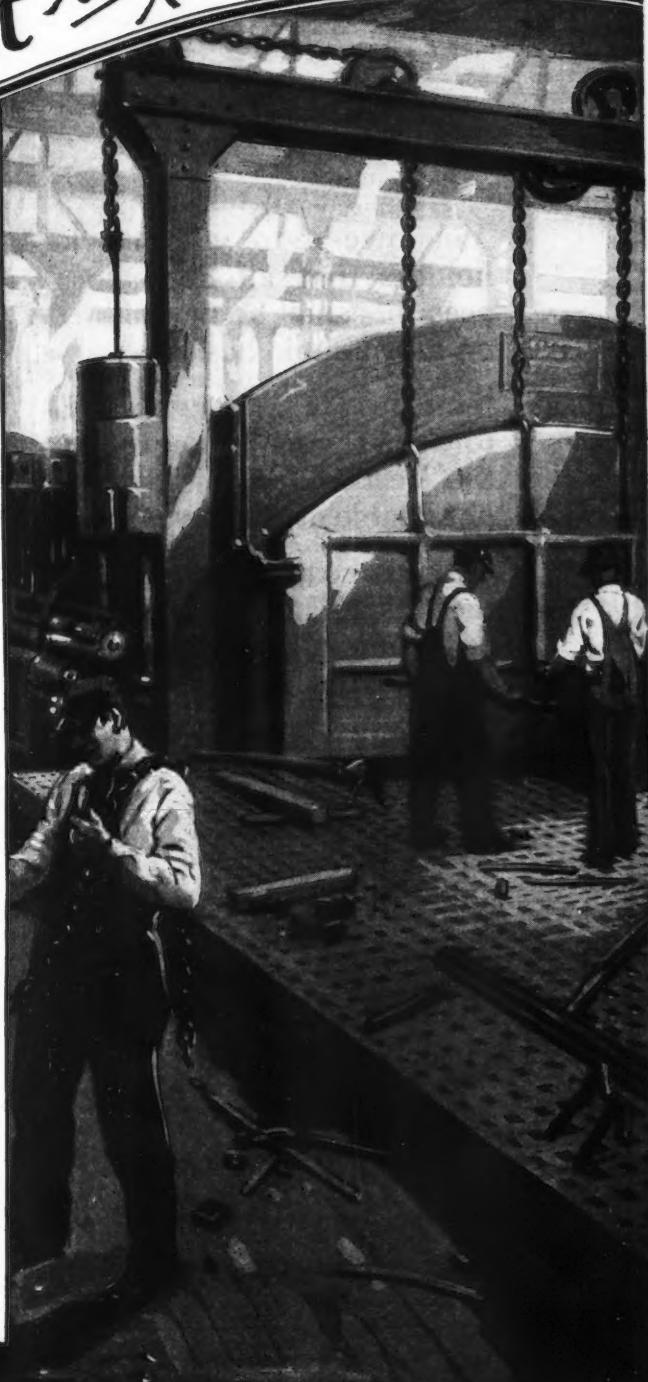
If it is done with heat  
you can do it <sup>better</sup> with gas

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- gas is on tap day or night, year in and year out—it never goes on strike
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—no capital tied up in next month's fuel
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*Expert combustion engineers will be glad to show you, in your own plant, how gas can improve your manufacturing processes, cut costs, increase output. Get in touch with your local gas company, or write*

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You owe it to your stock-holders that all depositors' accounts shall be maintained on a profitable basis.

You owe it to your depositors that you make use of the best collection facilities obtainable at the lowest cost.

Our correspondents enjoy the advantages of a direct collection service, operating twenty-four hours daily.

All items received at par.

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ties, cold storage facilities, demand and competition of apples, oranges and grapefruit, marketing costs, and special features peculiar to the market, with suggestions and recommendations for distribution.

London is the most cosmopolitan market in the world according to Mr. Smith. It draws its supplies of fresh fruits from the entire globe. Some of these shipments come eastward through the Panama Canal, and others come westward through the Suez Canal and the Mediterranean. The British are a world-roaming people, and have long been accustomed to look to foreign countries for food supplies. British markets accordingly offer an outlet for almost every food product of merit that can be landed in good condition.

After the active marketing season, an investigation was made of fruit distribution in Paris, as it is an example of a European metropolis that consumes few American fruits. The foundation was laid with representatives of the United States Department of Commerce situated in Paris for cooperative investigations to determine the presence or absence of a potential market for American apples in such cities.

"Generally speaking, European fruit markets are consignment markets," says Mr. Smith. "When prices are high in Great Britain they attract the attention of the farmer of Hood River, Ore., as well as of his brothers in Winchester, Va., and cousins in the Annapolis Valley of Nova Scotia. They all ship at once. Then the market goes to smash! This causes irregular supplies and fluctuating foreign prices. These conditions do not make for the best merchandising of an article, nor do they insure a maximum consumption and demand. To make his European consignments intelligently, the Hood River grower must have a closer knowledge of what his brothers and cousins are doing. In developing the foreign service for fruits and vegetables, the Department of Agriculture has sought to extend the farmer's vision by being the conveyor of intelligence that has previously been beyond his reach."

#### Method Problems Covered

AFTER the marketing season, reports were also completed on such specific problems as slack barrels of apples in export markets. A picture was given of slack barrels in trade, why they sell for less and the causes and methods of prevention. Effect of Panama Canal shipments on apple prices in Great Britain was so reported that the Pacific Coast producers could visualize the effect of placing large refrigerated cargoes of apples in prime condition on top of the regular flow of fruit from the Atlantic Coast ports. It encouraged them to continue this superior method of refrigerated shipment but suggested means of co-ordinating the supply. A report on price levels of apples in Great Britain summarized prices of American and Canadian apples in some of the provincial English cities contrasted with those in Liverpool, a large port of discharge and auction city, showing that supplies were fluid and that prices quickly adjusted themselves. The comparative advertising campaign paid for by growers and distributors and administered by British brokers was described in full.

Our principal fruit markets abroad lie in northern Europe, whereas areas of competitive production are scattered. Significant competition is offered by apples, pears and plums from England, Belgium, Holland and France; by citrus fruits, olives and nuts from the Mediterranean basin; by prunes from France and Yugoslavia; and by apples and pears from northern Italy, Switzerland and Czechoslovakia. It is necessary to be in the marketing areas when American fruit is moving in volume, but the American fruit grower needs technical reports during the growing season on the seasonal condition and general industrial status of his European competitors, and these are made by Mr. Smith.

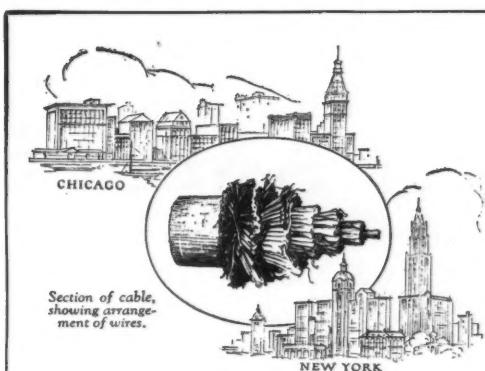
The Florida orange grower wants to know about the Spanish orange grower, his profits, losses, and outlook, because should the Spaniard be going out of business, the Floridian is anxious to produce for his former markets. The whole important question of a future demand for Florida oranges in the markets of Northern Europe seems to be surrounded by the nature of the competition from Southern Spain, the nearest and most important source of supply. To make certain regarding the prosperity of the Spanish grower under existing fruit prices, and to discover the probable future of the Spanish industry in regard to increase in production and development of outlets, the Spanish groves and shipping points were visited and were reported in full to American citrus growers.

### California and Bosnia Competing

THE Santa Clara Valley prune growers are anxious to know if the Servian and Bosnian farmers have many young orchards coming into bearing so that our technical representative in making a survey of the Balkan industry, is called upon to go beyond the statistics of trees in the Balkan States, because fruit growing among the peasantry of Europe is based upon home seedlings, budding and grafting, not adequately reported in census returns or comprehensively covered in tree nursery sales.

The prune growers of the Pacific Coast set the prices of their prunes before the new crop arrives on the market. To determine this price satisfactorily requires a close knowledge of the size of the crop and probable prices of the European prune crop. Mr. Smith spent some time with the Agricultural Commissioner at Vienna, in establishing contracts for forecasting this crop more accurately and made a close study of prune production in Yugoslavia in order that American orchardists may fully comprehend the nature and extent of their competition in the markets of Northern Europe. His special report on the prune industry of Yugoslavia pointed out local producing and consuming conditions which directly affected crop forecasts and probable competition—a vital matter to California, Oregon, Washington and Idaho prune growers when "making the price" to American jobbers.

At the end of the summer, Mr. Smith returned to America and spent some time in our producing territory, consulting with leading fruit growers on their overseas



## The World's Longest Telephone Cable

THE New York-Chicago telephone cable is now in service. It is 861 miles long and cost \$25,000,000. It provides more than 250 telephone circuits, and more than 500 telegraph messages can be sent simultaneously with the telephone messages.

This new cable is an important addition to the telephone facilities of the country owned by the Bell System, which include over 42,000,000 miles of wires, 16,000,000 poles, 1,900 buildings, and station and central office equipment costing over \$874,000,000.

This nation-wide plant, with a book cost of over \$2,400,000,000, and its nation-wide service, underlie Bell System securities.

The stock of the A. T. & T., parent company of the Bell System, can be bought in the open market to yield a good return. Write for information.



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D. F. Houston, President  
195 Broadway NEW YORK



"The People's  
Messenger"

# AMPLE

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## Experience

## Connections

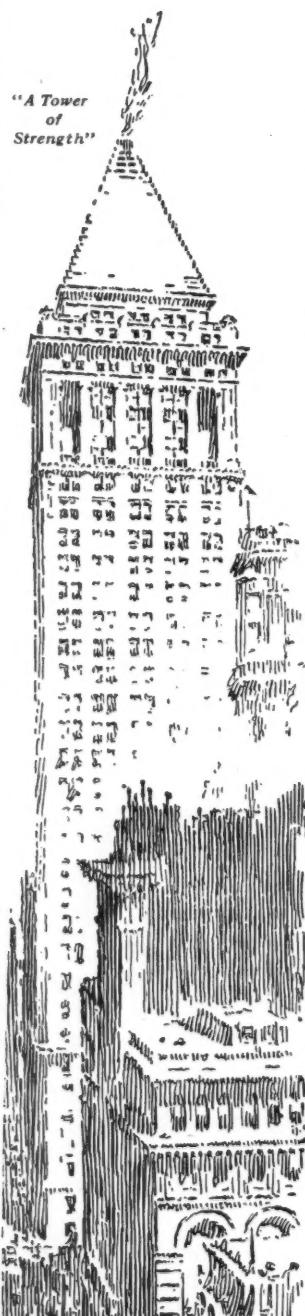
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problems, laying plans for more effective distribution of their products in foreign markets, and addressing groups of growers on the points they should know.

On his return to England, Mr. Smith's first study this year related to the effect on British markets and general results of shipping immature apples in advance of the season. He advised our shippers that Germany would start taking volumes of American apples earlier than last year and that if the market is handled judiciously, will take steady consignments in greater volume than in 1924. He believed that the heavy crop of barrelled apples from Nova Scotia will somewhat offset Virginia's shortage, while British Columbia's reduced crop of boxed apples will ease up the competition with our Pacific Coast States.

"America's great hope in expanding her markets for fruits and vegetables beyond the seas lies in being able to produce, pack and transport products that are superior to those foreign grown at a price to the ultimate consumer that makes buying possible," said Mr. Smith when sailing for Europe. "The American grower must be able to visualize these market possibilities and through his cooperative associations and shippers, meet the demands as they exist. In the case of grapefruit, educational advertising campaigns are needed to develop the new interest to a point of increased buying.

### Fluctuations Fatal to Demand

"As far as apples are concerned, one of the greatest deterrents on foreign demand is the nature of the supply. Variability in quality and condition and great fluctuations in volumes and prices discourage trade and consumption. An extension of our domestic market news service to include detailed news to foreign markets should cause a more intelligent and normal flow of supplies.

"It was our willingness to standardize our producing and transporting methods and facilities to meet potential market demands that made a place for our fruit in European markets in the first place and these practices will continue to open up new markets to us even though possibilities for growing just as good fruit are lying dormant in many parts of Europe."

A triumphant example of scientific handling, storing, and transporting apples from the Pacific Coast to England was cited. A carload of 1924 American Winesaps arriving in Glasgow after the 1925 apple crop from Australia and New Zealand had been practically cleaned up, sold on July 28 for prices that ruled higher than the average received for the fresh crop. The secret of the splendid condition of the shipment at this late season was the scientific handling of the fruit from the time it was picked from the trees until it was discharged on the quay at Glasgow, nearly 8000 miles distant. The apples were wrapped in oiled paper, placed immediately in cold storage at the proper temperature and held under good storage conditions at Yakima until shipped. They were loaded in a fully iced refrigerator car, and transferred to the refrigerator chambers of the steamship at New York.

On the other hand, the Hood River fruit

growers who shipped five cars of Spitzenburg apples under standard ventilation to New York, and common storage from New York to London, took a loss of \$3,500 through useless deterioration, but he felt differently about it when the Department's representative confirmed the claim of decay and pointed out the error of the inadequate protection provided.

"Experience demonstrates that as long as we can deliver a superior fruit it will be justly appreciated and will receive returns that reflect its comparative condition," says Mr. Smith. "It also emphasizes the great importance that must be attached to careful supervision of all details connected with the best conservation of the fruit when it is intended for marketing over an extended season. The way open for American growers to meet the competition of apple growers within the British Empire," he points out, "is to place before their British consumers a product that is irreproachable in quality and condition throughout the season. The customers will do the rest."

Probably the greatest value of this work, which is largely educative, lies in the fact that it is building a foundation to a future close relation between the American grower and exporter on the one hand and the foreign consumer on the other that will make the American farmer better able to extend his markets by meeting the demands of the foreign consumer in a way that is satisfactory to both and to cut down waste while doing it.

### Instalment Sales by Department Stores

THE New York Federal Reserve Bank recently made inquiries to ascertain whether the increase in the volume of department store sales on the instalment plan had been as great as the general expectation was. It sought information as to the amount of instalment credit in use in the many great department stores in New York City.

It found that the situation was well in hand, reporting:

"While the practise of granting instalment credit has spread during the past year to a number of stores heretofore on a cash basis, in general the results of the inquiry did not indicate any recent considerable growth in the use of this form of credit in department store trade. A wide variance in the practise was revealed; some stores are trying it experimentally, while others have fully adopted the plan and are pushing it.

"A few of the stores have carried on an instalment business for several years in such articles as furniture, rugs, pianos, and other household articles. Information secured from some of these stores indicated that while instalment sales have shown a somewhat greater increase over a year ago than cash sales in particular lines, the total amount of instalment sales and accounts outstanding has not expanded more rapidly than total cash sales. In general, instalment sales in this city are still only a small part of the total volume of department store business."

## WHAT ABOUT YOUR 1926 ADVERTISING?



YOU are on the threshold of a new year. Your showing for 1926 depends largely on how much *profitable* new business you will get and how many of your unprofitable accounts you can convert to a paying basis.

The entire Staff of the largest organization in the bank business-building field has been concentrating on this problem for months.

The result is a set of basic principles that when applied by your bank will mean substantial profit increases in 1926.

*Send the coupon below for further information. No obligation incurred, of course.*

### THE COLLINS SERVICE PHILADELPHIA

The Collins Service  
230 Columbia Ave., Philadelphia, Pa.

You may tell us what you have to offer to increase our profits in 1926.

*Bank* .....

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# “It Suits Us”

“I FIND many subjects which have always interestingly engaged my attention. . . . I have always found the publication generally useful and helpful. I have encouraged as much as possible the reading of this publication by as many of our officers and employees as possible. As a matter of fact I have often thought of asking for several additional copies each month in order that they could be more generally read by our employees.”

*From the Vice-President of one of the largest banks of the South.*

“Of all the magazines that we receive in this bank, we prefer the JOURNAL. The officers pass the same from one to the other.”

*From the Vice-President of a national bank in the Far West.*

“The JOURNAL ordinarily is read by from three to six officers. I believe the JOURNAL to be rendering a splendid service as it is now prepared and have no suggestions for betterment.”

*From the Vice-President of a Trust Company.*

“Permit me to express the appreciation of my co-officers and myself for the splendid magazine you are publishing. It seems to be most comprehensive and if you can improve and broaden its scope, you will be ‘going some.’ The JOURNAL is read most thoroughly by our President and myself.”

*From the Secretary of a Savings Bank.*

“In my opinion the JOURNAL should continue without change its policy of presenting only worthwhile substantial articles of merit on banking subjects. Many of the current banking JOURNALS are presenting articles which are obviously thoughtlessly and carelessly prepared.”

*From the President of a national bank in the Far West.*

“It is perhaps true that our most immediate problems engage the most of our attention. This, at least, is true with me and I find that I am scanning the AMERICAN BANKERS ASSOCIATION JOURNAL first of all for those articles concerning problems and banking procedure. . . . It is in my opinion one of the best magazines which we receive.”

*From the Treasurer of a New England Trust Company.*

“Three officers of this bank and all of our clerks read this magazine and we consider it the best of its kind in circulation. We readily recommend it to any one as reading matter which is interesting and recreative as well as educational.”

*From the Vice-President of a national bank in Florida.*

“The country banker is different. . . . He covers the whole broad field of banking and for that reason I think he is inclined to read about everything that appears to be worth while. In my own case I read practically everything in the JOURNAL. It is a most interesting and useful magazine.”

*From the President of a bank in New England.*

“The President and the cashier are about the only ones in the bank who read the JOURNAL. I think that both of us undertake to read about everything there is in it. I think it would be a hard matter for you to improve the magazine although I do not always agree with all of the ideas expressed.”

*From the President of a bank in Alabama.*

“All of the officers of this company read with interest the magazine published by the Association and I believe they are interested in practically every article it contains. In my humble opinion, it cannot be particularly improved upon. All of the articles are well written and the subjects should be of great interest to all financial institutions.”

*From the Vice-President of a Trust Company.*

**AMERICAN BANKERS ASSOCIATION JOURNAL**  
110 EAST 42nd STREET  
NEW YORK CITY

## Par Clearance Remanded by Supreme Court

By THOMAS B. PATON  
General Counsel

ON November 25 the case of Pascagoula National Bank of Moss Point, Miss., against the Federal Reserve Bank of Atlanta, involving the right of reserve banks to "par clearance" and the right of the national and other banks, members of the Federal Reserve System, to "immediate par credit," was presented to the Supreme Court of the United States. After hearing argument by the attorney for the Pascagoula bank, the court declined to hear argument by the attorney for the Atlanta bank and on November 30 transferred the case to the United States Circuit Court of Appeals for the Fifth Circuit. The order transferring the case was based upon the technical ground that the appeal had been taken directly to the Supreme Court from the decision of the District Court for the Northern District of Georgia instead of first being taken to the Circuit Court of Appeals. This means that the case has yet to be decided on its merits by the Circuit Court of Appeals before coming again to the Supreme Court for final determination.

WHEN the case was before the District Court, four specific contentions were made on behalf of national and other member banks and denied by the court.

The first contention was that national and other member banks have a right to immediate par credit, instead of deferred credit, by the Federal Reserve Bank for deposited checks and drafts drawn upon other members within the district. But the District court held that Section 16 of the Federal Reserve Act which requires every Federal Reserve Bank to "receive on deposit at par" from member and Federal Reserve Banks "checks and drafts drawn upon any of its depositors" does not entitle a national bank member to immediate credit at par of such checks and drafts payable at distant points but such items are at first received for collection and do not become a general deposit or the property of the Federal Reserve Bank and are not "received on deposit at par" until the expiration of the number of days fixed by the time schedule.

Secondly, it was contended that such member banks have a right to charge for remitting payment to the Federal Reserve Banks for checks drawn on such banks when held by the Reserve Bank for collection and not as owner. But the District court held whether checks forwarded a national bank for payment are held by a Reserve Bank as owner or as agent, the drawee cannot make a charge for remitting payment to the Reserve Bank, as the Hardwick amendment to Section 13 restricts that right to checks sent for collection or payment by other member or non-member banks and denies the right to make such charge against Federal Reserve Banks.

IT was further contended that the Federal Reserve Bank has no right to have or collect any checks drawn on its member banks which come to the Reserve Bank from a source outside its own district. But the



## A Billion Dollar Organization— The Federal Land Bank System

A unit because of the mutual underwriting  
Total assets on Sept. 30th, \$1,059,486,378.11

IN LESS THAN eight years of actual operation, the twelve Federal Land Banks have grown into a billion dollar organization! Since the Bonds issued by each Bank are underwritten by all the other Federal Land Banks, the entire system may be regarded as a single unit—the largest Farm Mortgage organization in the world.

The statement of September 30th (forwarded on request) shows 370,876 mortgages averaging \$3,073 each, held on improved farms in all parts of the country. The Total Assets were \$1,059,486,378.11; the Total Capital, \$52,783,832.50; Reserve, \$7,650,528.23; Undivided Profits, \$5,262,239.00. The monthly earnings are now substantially in excess of \$700,000.

These figures represent a conservative valuation. Every piece of land acquired through foreclosure has been charged off; no such item is carried as an admitted asset. Likewise, every installment payment over 90 days past due is charged off until collected, and it does not appear as an admitted asset.

### FEDERAL LAND BANK BONDS "A Standard Form of Investment"

so stabilized as to find a ready market with as little fluctuation in prices as Government Bonds

These Bonds, issued in denominations of \$10,000, \$5,000, \$1,000, \$500, \$100 and \$40, are safeguarded by

1. The small size and wide distribution of the individual risks with an average size exceeding 200%.
2. The steadily increasing capital, reserve and net earning capacity of the twelve Federal Land Banks.
3. The constant purging of assets through the writing off of foreclosed mortgages and past due installments.
4. Careful management in which the Government participates without assuming financial obligation, further safeguarded by strict Government supervision.

Congress has declared that these Bonds are "instrumentalities of the Government of the United States". As such the Bonds and the interest received from them are exempt from all "Federal, State, Municipal and local taxation", including personal and corporate income taxes. This provision has been affirmed by the U. S. Supreme Court.

Federal Land Bank Bonds are eligible for the investment of all fiduciary and trust funds under Federal administration. They are also acceptable at par as security for all public deposits including Postal Savings.

Bank earnings can often be increased by utilizing Federal Land Bank Bonds as security for Postal and public deposits.

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    Bush House, W. C. 2

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Liverpool: 27 Cotton Exchange Buildings

Havre: 122 Boulevard de Strasbourg

Antwerp: 36 Rue des Tanneurs

District court held a reserve bank is not restricted to receive on deposit or for collection only such checks on its members as come from within its own district.

Lastly it was contended that if the Federal Reserve Act authorizes a deprivation of the right of a member bank to charge for remitting payment to the Federal Reserve Bank, such provision is contrary to the Constitution. As to this the District court held that a national bank can refuse to pay a check otherwise than in cash over its own counter, but if it chooses to pay by remittance draft, the requirement that it must pay without deduction deprives it of no constitutional right.

The full text of the decision of the District court showing the specific answers made to all these contentions will be found published in the American Bankers' Association Journal for February, 1925, on page 515.

It is somewhat of a disappointment that

the ultimate decision of these important questions must remain in abeyance for some time to come.

### New Books

TRUST DEPARTMENTS IN BANKS AND TRUST COMPANIES. By Clay Herrick, Vice-president, The Guardian Trust Company, Cleveland. 435 pages. \$4 McGraw-Hill Book Co., New York.

A practical, authoritative treatment of the functions of trust departments, of the organization of such departments and of their management and operation. Numerous forms, records and schedules in actual use by both large and small trust departments are included. Special attention is given to systems in actual use for the safeguarding of securities and the handling of investments.

## Germany Now Has a Working Basis

By HJALMAR SCHACHT  
President, German Reichsbank

THE war left behind it two kinds of world unsettlement, one political and the other economic. The political unsettlement has been dealt with by statesmen and, after long negotiations, we have treaties, pacts and agreements.

The economic unsettlement has required a different type of treatment. Economic reconstruction involves a new coordination of the forces of production and distribution in order to bring to all people the maximum of well-being. A first essential to economic reconstruction is a stable currency within each country and a stable exchange between different countries. With this the banks of issue of the various countries are vitally concerned. For it is one of the special functions of the bank of issue to exercise its influence toward the stability of the currency of the country it serves, and the relation of this currency to the foreign exchanges.

The function of the German Reichsbank in respect to currency and exchange stabilization was clearly pointed out by the Dawes plan and the program therein agreed upon has since been put into operation. A new Reichsmark has been issued in the place of our old currency, circulation of it has been maintained at a reasonable level, and the Reichsbank now holds a gold reserve of 48 per cent. against its circulating notes.

THE problems which many of the banks of issue in European countries have had to deal with in bringing about currency and exchange stabilization are very similar, although in each country the local conditions, of course, are different. I have a personal acquaintance with a number of the heads of the European banks of issue and have found their experiences helpful to us in dealing with our German problems.

Last summer Governor Benjamin Strong of the Federal Reserve Bank of New York and Mr. Walter Stewart, economist of the Federal Reserve Board, visited us in Germany and the interchange of information and views with them proved most helpful to us. The object of my visit to the United States at this time is to return their visit of last summer.

I have greatly enjoyed discussing our mutual problems with members of the Federal Reserve Board, with Governor Strong of the Federal Reserve Bank of New York, with which the Reichsbank also has important business relations, and with the officers of some of the other Federal Reserve Banks whom it has been my pleasure to meet.

My visit to this country has also given me an opportunity to meet bankers here, many of whom I have met before in Germany, and to exchange with them views regarding the credit situation here and abroad, giving them information about German conditions and securing from them information about conditions here. We are, of course, particularly interested in conditions in the American money market because financiers and the investing public here have

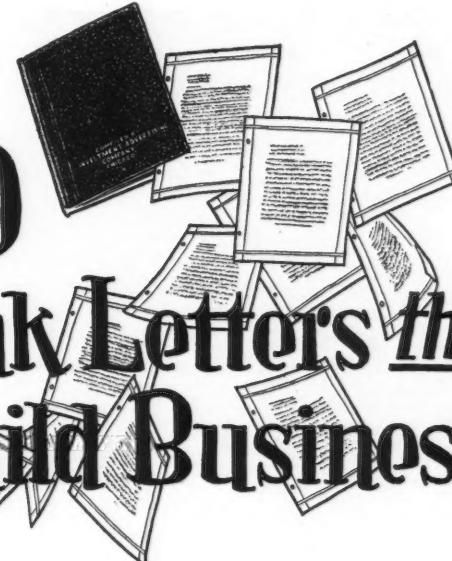
taken such an interest in aiding in the reconstruction of Germany by making loans to us. Germany appreciates greatly the help given by this country.

But in coming to this country I had no desire or intention to arrange for any credits or make any kind of financial arrangements, nor has anything of that kind been suggested or arranged during my visit. It was suggested in some of the papers when I arrived that I had come to propose some modification of the Dawes plan, but such statements are absolutely without foundation. I had nothing of the sort in mind.

AS far as the Dawes plan is concerned, I have only one comment to make and that is an expression of appreciation of the work which is being done in connection with the Dawes plan by the American representatives with whom I come in contact. These gentlemen are working in perfect harmony with our government officials and with the Reichsbank. We see frequently Mr. Gilbert, the agent general, Mr. Shepard Morgan, his economic adviser, Mr. Sterrett of the Transfer Committee, and Mr. McGarragh, who is a member of the board of the Reichsbank, and we have come to feel the highest respect and esteem for them. They have conducted their business so tactfully and so wisely that we have come to look upon them as friends who are helping us in working out some of our difficult problems.

Concerning general conditions in Germany, we have many difficult problems to face and much hard work to do before we shall recover our old time prosperity, but we now have a working basis. Our greatest need is working capital. Our liquid assets were dissipated. Fortunately the currency has now become reestablished on a sound basis and we no longer fear any recurrence of inflation. The Reichsbank is in a strong position. This furnishes a basis for a wise use of credit, but we recognize that such credit must be discriminating and we recognize our responsibility in that regard. It is for this reason that the government and the Reichsbank have discouraged borrowing by states and municipalities for any but productive and essential purposes. An advisory board has been created by the government, with the minister of finance as chairman, which exercises rigid control over applications of states and municipalities to float loans abroad, and only approves those loans which promise to assist commerce and trade. Due to the fact that many municipalities own productive plants, such as electric plants, harbor improvements, etc., there are many municipal loans which may have a genuinely productive purpose. Each case, therefore, has to be judged upon its own merits. No such control is needed for industrial and agricultural loans, which are favored because they are of direct aid in increasing the country's productivity.

BESIDES the lack of liquid funds there are other problems Germany is facing. One is the difficulty of finding markets for our products. With the erection of many new states in Europe, customs barriers have been set up and it will take some time



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either to find new markets or to open up the old markets by satisfactory commercial treaties.

We are not discouraged by these problems. German industrial plants are in good shape and scientific invention is increasing their efficiency. Farming prospects are promising, with the aid of a wider use of fertilizers and machinery than before the war. German industrial and commercial enterprise still prevails as before the war. Although we have lost money we have not lost our courage. Our banks are handled along the old, sound financial lines and we believe perhaps the greatest security which those who deal with Germany have is the continuance of complete responsibility in meeting our commercial engagements.

## Debts Now Funded

OBLIGATIONS now funded total about \$7,400,000,000, including the debts of Great Britain, Belgium, Czechoslovakia, Estonia, Finland, Hungary, Italy, Latvia, Lithuania, and Poland. Under these agreements payments due in 1926 are as follows:

Great Britain .....	\$160,900,000
Italy .....	5,000,000*
Belgium .....	3,840,000
Czecho-Slovakia .....	3,000,000
Poland .....	1,500,000*
Finland .....	314,890
Lithuania .....	209,550†
Estonia .....	100,000*
Hungary .....	67,588†
Latvia .....	60,000
	Total \$174,992,028

\*Paid in advance in November 1925. †Optional. <sup>x</sup>Partly payable in bonds.



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Banquet and luncheon facilities for the social and business groups of your city, vital as they are, are of minor import compared to the major advantages provided by the other services of the modern hotel.

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HARRISBURG PENNSYLVANIA

## Federal Reserve

(Continued from page 406)

or group of men, no matter how wise or altruistic they might be.

"It is a power which the American people would never be willing to intrust to any board or commission, and it is safe to say that it is a power which the Federal Reserve Banks will never attempt to exercise.

"Neither are the operations of the stock market the concern of the Federal Reserve System, except when the stock market is absorbing credit that is needed in general business, as was the case in the fall of 1919, or when the activity of the market and the rapid advance of many stocks threatened to breed a speculative fever which is liable to spread to commodities.

"In such cases, it seems to be the duty of those charged with the responsibility of administering the System to see to it that the price of Federal Reserve credit is not made so low as to encourage that tendency."

Dr. A. C. Miller, member of the Federal Reserve Board, in an address at Boston last month, with a mild preliminary disclaimer, took an even more pronounced position as to the necessity of keeping reserve credit out of the speculative situation. He said:

"It is not the duty of the Federal Reserve System to undertake to regulate stock or other speculation, or to interfere unnecessarily in the affairs of member banks. But it is well to recall that the Federal Reserve System was not established to provide a life preserver for the speculator. It was set up as an aid to industry, agriculture and commerce. It is a system of liquid productive credits. The use of Federal Reserve credit for speculative or investment purposes is precluded by specific provisions of the Federal Reserve Act. It is clear, therefore, that no bank has a proper status as an applicant for Reserve Bank accommodation which is supplying credit for speculative uses. It is the duty of the Federal Reserve Banks to hold true

to the course plotted for them in the fundamental provisions of the Federal Reserve Act.

"The good functioning of the Federal Reserve System means that the current productive industry of the country shall be at all times supplied with all the credit it needs from the Federal Reserve Banks to meet its legitimate operating requirements on the lowest terms consistent with economic safety. This statement needs no extended argument. But the American public does not yet fully understand that at times when industry and trade through excessive optimism or speculative enthusiasm are getting into a state of feverish activity they must not get the credit facilities of the Federal Reserve Banks on too easy terms—that is, on terms so low as to encourage needless borrowing and invite inflationary developments. While credit wisely extended can do much in a healthful way to stimulate, the dangers of overstimulation can never safely be lost sight of."

In the italicised sentence Dr. Miller seems to contemplate that the reserve banks should refuse to rediscount eligible paper for member banks which are extending credit for speculative uses. This is an exercise of authority which would have to be used with restrained discretion, but the general proposition that a way must be found to prevent the reserve system from contributing to inflation is incontrovertible.

It is not clear that a rising discount rate of itself can be relied upon to give the desired degree of control. The trouble is that when any inflationary movement is in full swing the allures of speculation are too strong to be overcome by any interest charges that ordinary business can stand. Borrowers who are looking for speculative profits will outbid regular business, and this seems to make some system of rationing necessary, if pressure is to be applied particularly to speculation.

The discount rate, however, has a psychological effect which is of great influence. This has been demonstrated in recent weeks, by the results of the moderate action of the reserve banks, in which the Boston bank took the lead. The disturbance was out of all proportion to any real change in the available supply of credit or any probable increase in the cost of credit, but the higher rate was accepted as notice that the supply of credit was running low and the long period of credit expansion on easy terms approaching the end.

## Open Market Operations

A METHOD of control resorted to by central banks which accomplishes results more speedily than changes in the discount rates, while attracting less attention, is through open market operations, i.e., the purchase or sale of securities or bills. When a central bank sells securities in the market it takes up bank credit from the supply in circulation, thus tightening the credit situation, and, per contra, when it buys securities it puts its own credit into circulation, thus easing the credit situation. Our Reserve Banks are at a disadvantage, however, as compared with the central banks of Europe, in using this method of control, because their relations to the money market are so largely through the member banks, and controlled by the latter. Their holdings of securities are comparatively small, and if they sell freely with a view to checking inflation, they soon exhaust their stock and are out of ammunition. If, then, they proceed to replenish their stock for the purpose of getting into position to again be a factor in the market, as they did in 1924, this action is a reversal of policy, which may accentuate

the condition of ease which they had been trying to correct. This was the case in 1924, when no little criticism was visited upon them on account of the low interest rates which prevailed through a large part of the year.

The Reserve Banks of this country were superimposed upon a banking system which already had sufficient resources to serve the ordinary and usual needs of the country, while the central banks of Europe have grown up with the development of business, and all do more or less business direct with the public. The latter, therefore, are independent factors in the money market, and able to exercise a greater degree of control over it than our Reserve Banks as yet have at their command.

Although a degree of prejudice and opposition will be encountered, the Reserve Banks are justified in developing with wise conservatism the policy of safeguarding their credit resources against boom demands. The Reserve Banks constitute a great reserve of credit which should be used, as Dr. Miller has said, "to give steadiness, stability and strength to underlying business conditions."

## Blue Sky

(Continued from page 424)

ceeded in interpreting to cover all phases of promotion and securities transactions. The little word "equity" has been especially useful to us in granting us authority to inquire into the equity phases of a securities issue, the actual values represented by the securities sold to investors.

Under the two general headings of inquiry we have prepared a general questionnaire for all dealers, and a general questionnaire for all agents and salesmen supplemented by special questionnaires for brokers, for mining companies, and for oil and gas companies. Where the answer to our questionnaires suggests the necessity for further inquiry, we have authority under the law to issue subpoenas, administer oath and take testimony. We may also require the applicant at his own expense to prepare and file such evidence as shall "satisfy" us that his plan of business is in fact "fair, just and equitable," and this includes audits by reputable firms of certified public accountants, as well as scientific reports from mining engineers or others.

When, on August 1, 1923, we began to apply these regulations and tests to all persons engaged in selling securities in Pennsylvania, we were immediately confronted with the emergency of more than 800 applications piled in over night and demanding immediate attention since the law provided that they could not legally engage in business until they had been examined, qualified and registered. We were urged, as an emergency measure, to register everybody and gradually weed out the undesirables. This we refused to do, because it would have put the law on the defensive, although the Securities Act puts the burden of proof on the applicant to show that he is entitled to registration. We chose them to take the goat by the horns and give a hurried and cursory examination to all applications before us, and register only those who on the face of the facts were legitimate dealers, and to shut down on all applicants whose



## REFRIGERATORS

ANOTHER important source of wealth in Michigan is the manufacture of Refrigerators and Ice Machinery.

This year more than half a million units of various sizes have been produced and marketed in every part of the United States for some \$30,000,000.

This bank is an important link in the manufacturing and marketing of refrigerators. It offers unequalled facilities for serving any individual or concern having banking business in the Great Lakes Region.

## FIRST NATIONAL BANK DETROIT MICHIGAN

*The First National Bank, the Central Savings Bank and the First National Company of Detroit, are under one ownership.*

standing was in question. Keeping at it from eight in the morning until eleven at night, and sometimes later, the 800 applicants were all examined within two weeks, and we were left with 385 applications which we refused to grant registration until they had furnished complete proof of their ability to qualify.

Against those 385 original applicants we stood adamant and refused to be stampeded, rushed or even hurried in granting them the registration to which they had failed to prove themselves entitled.

Since then the law has proved sufficiently effective for us to say with a fair degree of certainty that there is today in Pennsylvania not one known bucket shop in operation and less than half a dozen brokers whose method of business is in any manner

open to question and requires the periodical examination which we give them through our own staff of auditors. At the same time, the law has been sufficiently effective to bar entirely from the state the professional promotion houses with their telephone salesmen and high pressure gangs of loaders.

### Refused \$494,354,000

SINCE August 1, 1923, we have passed upon a total amount of original issues with a par value of \$797,360,000, and under the Securities Act we have disposed of them as follows:

Registered .....	\$206,451,000
Refused .....	494,354,000
Investigation pending .....	96,553,000
Total .....	\$797,360,000

# To Bankers and Dealers In Investment Securities

One of the important modern developments in the investment field has been the rapidly increasing popularity of Electric Light and Power Securities. This growing trend among investors accounts largely for the ease with which securities distributed by R. E. Wilsey & Company are sold to the public.

For many years we have been large distributors of sound Electric Light and Power Securities.

*Inquiries regarding our current offerings are invited and will receive our prompt attention.*

**R. E. WILSEY & COMPANY**  
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From August 1, 1923, until August 1, 1925, the total number of applications filed under the Securities Act amounted to 2710 dealers' applications and 10,671 salesmen's applications. From this number there were granted 1515 dealers' registrations and 5722 salesmen's registrations. These registrations cover duplications for the two years, and the annual registration for 1925 was 754 dealers and 2915 salesmen, which is a fair average of the registration actually in effect all year round.

On a formal refusal of the Bureau of Securities to register a dealer, he may take an appeal to the Court of Common Pleas of Dauphin County. During the first two years, while the bureau acted on 2710 dealers' applications and rejected 1195, there were thirty-one appeals taken to the Dauphin

County Court, and the court in nine cases reversed the Bureau of Securities. Subsequent developments in the cases of the nine dealers who obtained registration from the court vindicated the action of the Bureau of Securities. Most of them were put out of business by fraud prosecutions and others failed to qualify for registration at the beginning of the year 1925, with the result that at the end of the two-year period on August 1, 1925, there was no registration of dealers nor salesmen in effect in Pennsylvania which had not been granted by the Bureau of Securities.

Since that time five additional appeals have been taken to the court, and in three of these cases the court decided against the Bureau of Securities.

Right there we come to a peculiar pro-

vision of the Securities Act. The applicant may appeal from any decision of the Bureau of Securities and may carry the appeal to the highest court in the land. But the state has no appeal. When the lower court decides against us, we are through.

This, we believe, is a serious defect in the Act, and we have been able to meet it only by pressing our case in other states. A case in point was that of F. H. McNulty and Company, a bucket shop with offices in New York, Pittsburgh and Chicago, whom we refused to register. The Dauphin County Court reversed us, but with the cooperation of Keyes Winter, Deputy Attorney General of New York, in charge of the Attorney General's Fraud Prevention Bureau in New York City, the audit of our accountants was pressed against McNulty before Supreme Court Justice Ford in New York City, and McNulty and Company were put out of business. The inevitable appointment of receivers in New York, Chicago and Pittsburgh demonstrated only too well our justification in refusing registration to the company which was found insolvent to the extent of approximately \$1,000,000.

## Will Ask for an Amendment

THIS, and similar instances, we believe will justify a demand upon the next session of the Legislature to amend our Act to the extent of granting the state the same right of appeal that applicants have. We feel the necessity for such an amendment all the more strongly on account of the general lack of sympathy with Blue Sky legislation demonstrated by our lower courts and by many lawyers.

Not infrequently have we been scolded, held up to scorn as scandal mongers and threatened with contempt of court proceedings in our attempts to enforce the law impartially and effectively. This, even, in behalf of defendants who subsequently have pleaded guilty in criminal prosecutions. In one instance a county judge most indignantly and forcibly took us to task for interfering with "people earning an honest livelihood." And the very next day, when we finally compelled these people to produce the books of their promotion, this judge ordered a three-minute recess for conference with our counsel.

"What are you trying to do with your insistence on the demand of these books, are you trying to make a public scandal of the fact that I own \$1,500 of stock in this company?" demanded this judge.

We had no idea that the judge had any stock. We were entirely innocent of any attempt to cast reflection on the court, and only the court's own language revealed to us the true reason for his bitter hostility toward us when we attempted in his court to prosecute a notorious promoter with a long criminal record and his three fellow defendants. We got a mistrial then, and when the same defendants were brought before another judge they pleaded guilty.

In another county court we appeared to testify against a man who had a criminal record and who is now under indictment in the Federal Courts, but who contributes freely to all club, social and fraternal functions of the county which he now graces with his presence. How unwelcome we were and how little sympathy the court had

with Blue Sky legislation may be gathered from a few extracts of the judge's interrogations as follows:

"You say you are a Deputy Secretary of Banking? Well, are you? Who appointed you? By what right did they appoint you? What is the Securities Act? I never heard of it. Where were you born? How do you spell your name? What language is that? Do you speak English? Do you understand the English language?"

The language and the tone of the judge by that time had thoroughly advised the jury that here was an irresponsible foreigner with evil intent against a prominent resident of the county, and it would be well to pay no attention to his testimony. And, bless your heart, the jury didn't.

There are other minor defects in the Act which greatly handicap our work, but none as serious as the section which denies us the right to appeal. These are matters, however, of little general public interest no matter how aggravating they may be to those responsible for the successful administration of the law. In the last session of the legislature a general attack was made upon us and proved to have been entirely inspired by fraudulent dealers barred from the state, and their attorneys. The senator who undertook to sponsor this attack found himself greatly embarrassed by the unwillingness of any of his witnesses to appear before the Senate Committee and testify. At the same time all the reputable banking interests of the state did send representatives to testify in our behalf, and gave such generous testimony and such effective testimony that the attack upon the Blue Sky law and its administration failed. It did, however, keep us engaged to such an extent that we thought it unwise to introduce any amendments on our own account.

The point, however, is that the only people who appeared in defense of the law regulating the business of bankers and investment bankers and taking a positive stand in favor of its impartial and strict enforcement were the legitimate banking and investment banking people. These are the only people who might enter legitimate protest against our activities. They are the only people who are required under the Act to pay an annual fee for the support of the administration of the Act, and they are also the only people for whose business regulation no such act is necessary. Yet these people, the legitimate banking and investment banking interests, who only indirectly benefit from the Act by being protected against unfair competition, are the only people who have shown any real active and aggressive interest in upholding and supporting the law and its administration.

### Director and

(Continued from page 410)

Every community has individuals whose optimistic enterprise, both in their private affairs and community interests, is more than normal. As a rule this class receives more plaudits from the community than the conservative type. The enterprising type always has the largest personal following. It is from this type that bank directors frequently are recruited. This enterprising individual very frequently limits the extent

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The bank that avails itself of the facilities and cooperation of this institution is in a position to render a superior service to its customers.

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Total Resources  
Over \$550,000,000

and number of his enterprises only by the amount of money he is able to borrow. This disposition absolutely negatives the desirability of such an individual as a bank director; yet such men by reason of their great activity and personal following are frequently found in bank directorates.

The smaller the community, the more personal and direct are the contacts between its individuals. If, to illustrate, a successful and prominent retail clothing merchant is a director in a bank, it is possible that the other clothing merchants will not cooperate with the bank. The same line of reasoning holds good with all other directors who are actively engaged in business in the community.

The conception that the director with a small stock interest in a bank, and a large and vital interest either directly or indirectly in an excessive borrowing customer, can impartially pass on the application of the latter is an unwarranted conclusion.

The vital thing in the safe operation of a bank, is that the credits should be measured from the viewpoint of whether they meet banking requirements. They should not be granted through other considerations. It does not require a superman to measure credits, if he can be relieved of all influences other than the careful consideration of the merits and defects of the credit. Cannot this requirement to be better met in the "one-man" type of bank?



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112-1225

## The One-Man Bank

THE defects of the "one-man" bank are being pointed out constantly. Where the "one-man" in a bank fails in his trust, the fact is heralded country-wide in the press. Yet it seems less shocking for a bank to fail through loans to directors or their interests which meet technical requirements, but which are contrary to principles of safe banking practice.

It is submitted that evidence indicates that the "one-man" management,—where that individual owns a substantial interest in the bank; whose bread and butter depends upon the bank's success, and who has no

outside interests—offers a safer plan. It is superior in the average town, to average director management, with its many cross currents of interests.

It would be interesting to know the average amount of stock holdings of all bank directors; the average amount of credit extended to each director and his various interests. An analysis of the actual merits of such credits would also be enlightening.

"For where your treasure is, there will your heart be also." This applies to bank directors. In too many cases the stock holdings of directors are merely nominal when compared with outside holdings. They are supposed to sit in judgment in matters

where the interest of the bank and their outside holdings are adverse.

## The Hum

(Continued from page 425)

outstanding shall be covered by gold coins. The rest may be covered by bullion. Thus the Treasury has no alternative except to bring the coinage up to the standard that is fixed by Congress.

The Treasury report shows that there was \$1,050,056,659 in these yellow-backed bills outstanding on October 1 with more than \$620,000,000 in certificates in the hands of the Federal Reserve Banks and the Treasury. Thus, to live up to the mandate of law, the mints must keep the coining presses humming until more than \$335,000,000 in gold coins rest in the Federal vaults.

During the past few weeks, the mints have turned from gold to the making of half-dollars, quarters, dimes, nickels and one-cent pieces. So it may be anticipated that the change of the nation will be brightened during the holiday season by the appearance of the shining new coins. When one ponders over the vast number of transactions that involve the payment of fractional coins, the wonder grows that the population can get along with such a relatively small amount of hard money. Excluding gold coins it is surprising to learn that the mints created a total of only \$28,000,000 in new hard money during the whole fiscal year of 1925.

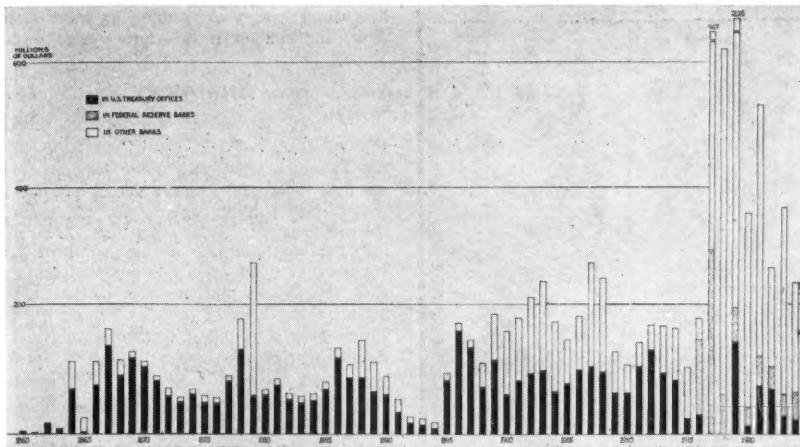
Cast up in pieces, the year's output was:  
18,308,000 new dollars.  
2,476,808 half-dollars.  
15,884,000 quarter-dollars.  
30,120,000 dimes.  
15,879,000 nickels.  
95,259,000 one cents.

Not as many as two new coins for each American! But yet business went along as usual.

Still this is not so remarkable when one considers the life of a coin and the number of times that the average nickel or dime changes hands within a year. It appears that the United States requires more than a quarter-billion dollars in coin to fill its needs. The coin in circulation at the beginning of 1925, including silver dollars, amounted to \$323,681,663 while the banks had \$191,839,193 on hand to meet the over-the-counter demands. The stock of money was about three times this large but the rest was stored away in the Federal vaults.

The mints have kept a meticulous account of every coin they have executed since the early days of the Republic when French die makers who were employed produced the first hard money with the word dime misspelled disme. The total value of all the gold, silver and minor coinage struck off is \$5,238,988,627—not materially more than the present gold holdings of the United States.

This sum does not include the coins that have been struck off by the United States mints for foreign countries. For a number of years, the mints have performed these services as a matter of international comity. This year coins for Poland, Peru, Guatemala, Venezuela and San Salvador were executed.



Balance in the General Fund of the Treasury on June 30 of each year. Under the Reserve System balances have been largely kept in commercial banks where they are available for the use of business

## Reserve Banks

(Continued from page 409)

essary, provide the means by which Treasury operations may be handled smoothly and effectively and without disturbance to the markets.

Another reference to Diagram 1 will show that even with the present gigantic size of government financial operations the Treasury is today able to operate with a smaller balance than in many of the earlier years when the volume of operations was very small in comparison.

## War Service

ONE reason for giving such a detailed account of quarterly tax day operations is that these operations are typical of the procedure which was followed in carrying through the vast amount of war financing. During the war it was the Federal Reserve Banks which organized the sale of Liberty bonds and Victory notes and of short term certificates of indebtedness, and it was these banks which handled the proceeds and paid them out again from time to time at the direction of the government. It was the power of the Federal Reserve Banks to extend credit which enabled member banks to subscribe as they did to the war loan issues.

These things are all a matter of current record and vivid memory, and it is perhaps only important to point out here, the fact that these huge operations were carried forward without any disorganization of the money markets. The secret of the smoothness with which these operations were conducted in the money markets was that funds were never allowed to pile up in the Federal Reserve Banks or the Treasury, but were only called in to be paid out immediately. When banks made payments for Liberty bonds they took the form of deposits to the credit of the Treasury; and the operation of buying bonds was in the main simply a transfer of deposits on the books of the banks from the accounts of customers to the account of the Treasury. The government drew down its balance only as the funds were needed to be paid out and

by these payments for services, munitions of war, etc., it created new balances to the accounts of bank customers. Back of all these operations stood the Federal Reserve Banks ready to make advances to the member banks whenever necessary.

A second principle which was important in maintaining stability in the money markets during and after the war was that, except for a single three-month's loan of \$50,000,000 in April 1917, and for occasional issues of special one-day certificates of indebtedness to cover overdrafts, the Treasury did not borrow directly from the Federal Reserve Banks. To the extent that Federal Reserve credit was required to finance the war, it was created by borrowing on the part of member banks, with the obligation which that involved for the eventual return of the loan, or it took the form of open market purchases by the Reserve Banks of commercial or Treasury obligations which were saleable in the open market. The Reserve Bank was thus in a position at all times to exercise an influence toward stability. This principle of independence of the Reserve Banks from direct Treasury borrowing was a sound principle to follow and saved our banks of issue from many of the troubles that have overtaken certain of the European banks of issue, which have found themselves under government domination and out of contact with the money market.

When the Federal Reserve Banks first started operations, the Treasury continued to maintain subtreasury offices in nine important cities. In succeeding years the functions of these offices were gradually transferred to the Federal Reserve Banks. During the years 1920 and 1921, by act of Congress, the remaining subtreasury functions were taken over by the Reserve Banks and the subtreasuries closed. Thus the Federal Reserve Banks are now the only regular source of supply for coin and currency, with the exception of national bank notes initially circulated by national banks. With this exception all the money in circulation is distributed through the Federal Reserve Banks. Old money is retired from circulation and new money is put out. The Treasury is saved not alone the expense of oper-

ating the subtreasuries, but also the cost of carrying a working supply of coin and currency.

## Open Market for Treasury Certificates

A FURTHER interesting service which the Federal Reserve Banks have been able to perform for the Treasury and for the money market lies in the aid they have given to the establishment of an open market for short term Treasury issues in the form of certificates of indebtedness or Treasury notes. During the war the Treasury found it imperative to finance in some organized way the temporary advances it required to conduct operations pending the

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receipt of taxes or pending the receipt of returns from Liberty Loan sales. As a consequence there were issued, to be sold to banks and private investors, short term securities running for from one to eleven months. As the war progressed it was necessary to issue larger and larger amounts of these securities and they began to accumulate in banks. To aid in a wider distribution steps were taken to establish an open market for these securities. Dealers were encouraged to buy and sell Treasury certificates and in so doing were given the support of the Federal Reserve Banks, which adopted a policy of standing ready to

purchase Treasury certificates from dealers from time to time whenever the market became congested or money rates rose to such high points that dealers could not secure the funds they required to carry their portfolios of certificates at rates approximating the rates borne by the certificates. The establishment of this open market stimulated the use of Treasury certificates as means of employing surplus funds. The assurance of a ready sale at all times enables banks and others to use Treasury certificates and notes as secondary reserves, which may be utilized to adjust their positions at any time. The open market for Treasury certificates greatly

aids the Treasury in handling its short dated debt, and enables it to secure better terms for its sale.

### Summary

We may summarize the services which the Federal Reserve Banks perform for the Treasury under two main headings. In the first place, the Reserve Banks provide a trustworthy banking agency for the use of the government, with which the Treasury may deal without fear of accusation of favoritism. It is an agency in constant contact with the money market, with offices in all parts of the country, and by reason of its nature as a semi-public institution performs work for the Treasury practically without charge.

In the second place, the presence of the Reserve System relieves the Treasury of much of the direct responsibility which it formerly carried for the money market. It is no longer necessary for the Treasury Department to make special deposits or purchases of securities for the purpose of relieving business crises, nor again is it necessary for the Treasury to depend upon some syndicate of bankers to rescue the Treasury itself in periods of emergency. The presence of the Reserve System as a credit reservoir for the adjustment of the volume of credit to business needs, relieves the Treasury from what had been one of its most onerous burdens and provides in addition a credit reservoir available to support the credit needs of the Treasury in emergencies. The result of the presence of the Reserve System is to make the Treasury more truly independent of the money market than was ever the case under the so-called Independent Treasury system.

### Financing Other

(Continued from page 423)

iness houses will be of inestimable value in placing the dollar in a position of importance in those countries. Today it is used largely to finance, among others, shipments of wool and hides from South America to Europe, coffee from South and Central America to Germany and other central and northern European countries. American credit is also used for exports of various products and merchandise from Europe to South and Central America.

The sphere of the dollar is not, however, confined to this hemisphere. It has proved valuable in financing shipments of goods between the several European countries themselves and between these countries and the Far East—a function acquired entirely since the war, probably due, largely, as mentioned above, to the lower discount rates that have prevailed in our market. All these transactions create dollar balances here to the eventual credit of the shipper of the goods, wherever he may be—whether in the Argentine, Colombia or Scandinavia. The stability of the dollar gives the shipper assurance that the value he receives for his goods will not depreciate over night; and after all, it is this stability which makes the whole transaction possible.

There may be doubt in the minds of some as to the advantages resulting from our banks financing transactions between two foreign countries. As a matter of fact, the

results of such business are decidedly worthwhile and far-reaching, touching in the long run the major part of our industries. The monetary profits from commissions, interest, discount, and the exchange operations involved are the most evident results of a direct and immediate nature. In addition the funds resulting from the transactions are placed on deposit with banks here, for a time at least, and add to the supply of liquid funds in our market. These funds generally are used for the purchase of goods here and tend to swell our export business and, in turn, our favorable trade balance. Herein lies the greatest benefit accruing from this type of financing—a benefit touching all branches of industry interested in shipping goods abroad.

### A Short Step to Loans

THE use of the dollar in this way naturally leads to its use along other lines and it is not a long step from these short term credits to loans and issues of a more permanent nature. The two seem to have gone hand in hand in the past and are continuing to do so now.

Aside from these more or less material benefits, there is also the uncertain and intangible asset known as prestige. The pound sterling has had it for centuries, while the dollar has had it possibly for a decade—to a lesser degree and in a narrower field. The constant appearance of drafts and bills of exchange drawn in dollars in the trade centers all over the world will remove some of the long-standing prejudice against them and will lead in the long run to their ready acceptance as universal mediums for financing international shipments. From a slightly narrower point of view, the names on the bills also gain prestige, become known, and are readily taken abroad—a form of publicity for the accepting banks which is often beneficial to them in developing and extending their connections.

This brief sketch on "third party financing" can only touch the surface of a very broad and ramified subject, which in turn is a part of a still larger field—the movement to place the dollar in the markets of the world beside the pound sterling. There can be little legitimate doubt about the advisability of working toward this end and now is the opportune time to lay the foundation. Events during the last ten years have placed the tools in our hands and all that remains is to use them properly.

### Trust Companies' Growth

"TRUST COMPANIES OF THE UNITED STATES" just issued by the United States Mortgage & Trust Company of New York shows that the trust company resources of the six leading states are as follows:

New York.....	\$4,944,543,770
Pennsylvania .....	2,251,046,736
Illinois .....	1,908,503,622
California .....	1,689,417,834
Ohio .....	1,451,282,004
New Jersey.....	955,304,410

The 2701 reporting companies of the United States had total assets of \$18,145,673,500, an increase of \$2,120,171,225 over last year.

Nearly every city has one outstanding Banking Institution. In Los Angeles it's SECURITY. With more than 280,000 Depositors, with assets exceeding \$20,000,000, with every banking service at 43 locations under departmental system, and with extensive facilities for giving information and guidance to the new arrival, SECURITY is the ideal bank for the newcomer. Your customers will be pleased if you give them letters of introduction to the SECURITY TRUST & SAVINGS BANK.

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### **System of Liquid**

(Continued from page 413)

employment and payroll disbursements are all in materially greater volume than a year ago. There can be no doubt that we are already in an era of prosperity. The year

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fore long to be on a normal basis of productivity. Our export trade will benefit. The atmosphere of the world at large, moreover, has become more conducive to economic adventure by reason of the settlement of many of the perplexing economic and political problems left at the end of the war. Among these, of particular interest to the United States, are the Dawes Plan of reparation payments and the progress made in arranging funding terms of debts owed to the United States. The outlook has never been so bright since the close of the war. Whether the prosperity which beckons is to be short-lived or of long duration will depend largely upon the wisdom and skill with which we handle ourselves in the United States. The business community of the United States learned several great lessons from the disastrous crises and depression of 1920-1922. It has developed in recent years a capacity for economic self-government that should go far toward insuring preservation of business sanity and the avoidance of the extravagances and excesses that inevitably culminate in prosperity booms. The Federal Reserve also has a very great responsibility for the maintenance of sound conditions to the extent at least that this can be helped or accomplished by maintaining the credit situation healthy.

### **Floating Supply of Credit Never So Large**

THE floating supply of credit in the United States has never been so large as at the present time and never so much in excess of current and prospective requirements of commerce, agriculture and industry. The principal factors that have contributed to this result are (1) the large influx of gold in recent years; (2) economy in the use of credit resulting from the smaller volume of credit required for carrying inventories because of improved transportation conditions and the promptness with which plant facilities in all leading lines of industry are able to respond to increased demands for their products; (3) the thawing out, largely as a result of improved agricultural conditions in this and the last crop season, of credits that became frozen after the crisis of 1920; and, finally, to rapid seasonal liquidation this autumn. These factors account for the comparatively slight growth in the volume of credit taken for commercial uses from the banks of the country in the course of the last year. The great growth in the loan account of the banks of the country has not been in the commercial loan account but in the collateral loan account. And the great growth in this branch of banking operations is due mainly to the huge volume of credit absorbed by the call market in the country's great speculative center since the opening of the year. This condition, along with the considerable volume of credit absorbed by land speculation in some parts of the country and speculative building operations, constitute the danger spots in our present situation. There is evidence that a section of the public is losing its bearings and being drawn into the arena of thoughtless speculation. Cheaper and more abundant credit than the country has ever known on so extensive a scale is giving them aid and encouragement. It is

1925 has brought a great many new constructive factors into play in our economic situation. Of these, the most important is the recovery, even though not yet complete, of agriculture. Of very great importance also is the marked economic recovery of Europe in the past two years. The leading industries of Western Europe bid fair be-

time for a halt lest a speculative frame of mind should be engendered which might in time invade the field of legitimate trade and industry.

### Not System's Duty to Regulate Stock Speculation

IT is not the duty of the Federal Reserve System to undertake to regulate stock or other speculation or to interfere unnecessarily in the affairs of their member banks. But it is well to recall that the Federal Reserve System was not established to provide a life preserver for the speculator. It was set up as an aid to industry, agriculture and commerce. It is a system of liquid productive credits. The use of Federal Reserve credit for speculative or investment purposes is precluded by specific provisions of the Federal Reserve Act. It is clear, therefore, that no bank has a proper status as an applicant for Reserve Bank accommodation which is supplying credit for speculative uses. It is the duty of the Federal Reserve Banks to hold true to the course plotted for them in the fundamental provisions of the Federal Reserve Act.

### Vice-Governor Platt's

(Continued from page 404)

in my opinion, by excluding from membership many well managed institutions, and by preventing any further additions of branches under any circumstances by member banks.

AS to the unwisdom of such an iron clad prohibition of all further extension of branches by member state banks I have only to cite the recent establishment of a branch of the Citizens and Southern Bank of Savannah, Georgia, in Athens, Georgia. This branch was established with permission of the Federal Reserve Board in August at the earnest request of the directors of the Federal Reserve Bank of Atlanta and at the request of the citizens of Athens. One of the leading citizens of Athens has recently written me that the establishment of this branch "has been of incalculable value in creating confidence and stabilizing conditions generally in the city and community."

Now what good reason is there for prohibiting by law the rendering of such a service to a stricken community? If national banks cannot be permitted to render service of this kind because of prejudice against branches why should we say to a state that its State banks cannot render such service and remain in the Federal Reserve System? The Athens case does not stand alone. There have been several others during the past year, and more during the two or three preceding years.

Section 9 will do nothing of consequence to strengthen the national banking system, and if branch banking is as alluring as its opponents appear to think it is, it will do nothing of consequence to prevent its spread. Section 8 purports to give city national banks the right to establish branches within municipal limits, where state banks have that privilege, a right which the national banks are already exercising with the concurrence of the Comptroller of the Cur-

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rency. Section 9 denies to country banks the right to establish even neighborhood branches. It should be remembered that of the 310 banks operating branches outside municipal limits 239 are located in towns or cities with a population less than 25,000, and 129 of them in municipalities of less than 2500. Some of these banks have operated branches successfully for upwards of thirty years. Is it likely that Section 9 will cause them to give up their branches or will coerce the states in which they are located into a change in their laws relating to the subject?

IF Section 9 does nothing of consequence to strengthen the national banking system another section of the McFadden bill will do much to weaken it. I refer to Section 7 which repeals an Act which has been a part of the National Banking Law since 1866. This repeal will prevent banks with branches beyond municipal limits from becoming national banks and retaining their branches. Section 7 is doubtless regarded as an essential accompaniment of Section 9 and stands or falls with it. Instead of prohibiting these banks from becoming national banks

the national banking system would be greatly strengthened if such banks as the Grenada Bank of Grenada, Mississippi, the Tennessee Valley Bank of Decatur, Alabama, the Citizens and Southern Bank of Savannah, Georgia, the Wachovia Bank and Trust Company of Winston-Salem, North Carolina, the Industrial Trust Company of Providence, Rhode Island, the Merrill Trust Company of Bangor, Maine, and many others that I could mention could be induced to take out national charters. I have not mentioned the branch banking institutions of California because they are so well known, and because my purpose is to show that California and Cleveland are really only a small part of the picture.

Of course, it should be understood that in this article I am expressing my own individual views, which may or may not coincide with the official opinion of the Federal Reserve Board should be the McFadden bill in the form in which it passed the last House of Representatives be submitted to the Board for its opinion.

EDMUND PLATT,  
Vice-Governor, Federal Reserve Board.

### Thrift Week

IN cooperation with forty government, religious and civic organizations, National Thrift Week, January 17-23 inclusive, will be observed all over the United States under the auspices of the Y. M. C. A.

There are ten points in this national event,

as follows: "Work and Earn," "Make a Budget," "Record Expenditures," "Have a Bank Account," "Carry Life Insurance," "Own Your Home," "Make a Will," "Invest in Safe Securities," "Pay Bills Promptly," "Share With Others." The slogan of this week is "For Success and Happiness." Each day is set aside to emphasize some phase of thrift.



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## Pessimistic About Youth of the Land— Read This

By G. L. NOBLE

Executive Secretary, National Committee, Boys' and Girls' Club Work

UPON the boys and girls of 1925 depends the greatness of this nation in 1950. They are the future. Upon their dependability, leadership, resourcefulness and all around good citizenship has been wagered millions of dollars in long time securities. If these boys and girls of today should fail to carry on in the tasks turned over to them, who will pay the debts of today, the nation's mortgages on the future?

That the future is bright and that all is well with the boys and girls of 1925 in spite of pessimism on all sides to the contrary, consider the National Boys' and Girls' Club Movement! Organized a few years ago to promote a four-fold development among the youth of the farm, backed by and in cooperation with the United States Department of Agriculture, the National Committee on Boys' and Girls' Club Work has produced a record to inspire every patriotic citizen.

More than 600,000 boys and girls living on farms in every corner of the Union belong to local Four-H clubs. The average age is fourteen years, seven months. Each child raised something on a plot of ground all his own, ranging in size from a small garden to an acre. Young as they are, these boys and girls added over \$10,000 to the Nation's material wealth in the form of corn, wheat, oats, barley and other crops as well as vegetables. The incalculable added wealth of character built and molded of instilled habits of work and saving cannot be estimated. A most significant and striking fact about these boys' and girls' clubs throughout the land is that 57.61 per cent of the members own a bank account, and that the average size account of those owning bank books is \$125.25. Further 59.20 per cent of these children own other property of an average value of \$138.71. Investigation has revealed that only 18.28 per cent conducted their miniature farms on borrowed capital and that of these 53.62 per cent obtained credit from their local banks, the others obtaining the money from parents or other sources.

These figures, taken for the year 1924, from a group of 755 club members picked at random and representing a wide geographical range are expected to be greatly improved this year.

In conjunction with the International Livestock Show in Chicago a congress of champion representatives from boys' and girls' clubs in most of the counties in the United States was held November 27 to December 4, to compete for national honors along many lines from pig raising to personal leadership and to wind up the affairs of the National Committee for 1925, and to set the ball rolling on the 1926 program.

At this time from 1250 representatives of 600,000 boys and girls throughout the land will be chosen, the healthiest youngster, the boy or girl whose qualities for leadership have made him or her stand out most clearly—in short, national champions along all the

fourfold plan of the Boys' and Girls' Clubs will be chosen.

Probably the simplest solution of the problem "how to keep the boys on the farm," is found in the answer: "Keep the girls on the farm and the boys will stay." Thus it is that the work among the farm girls is given a double significance. Three or four years of intensive Boys' and Girls' Club activities is sufficient to fit the average intelligent farm girl to become a helpful, home-making farmer's wife. Purposely nothing has yet been said of this fourfold plan of the movement. The hand, the heart, the health and the happiness of each member of the clubs is the aim of the boys' and girls' club movement. The Four-H clubs are called for the initials of these four essentials. Development of each member toward the goal of well-rounded manhood and womanhood proceeds upon a definite program of development in each of these lines. Ability to raise and judge grain and livestock along most improved and efficient lines constitutes the aim set for the hand. Habits of work, saving, ability to conduct a farm as a business, these are the work of the head. Neighborliness, idealism, development of the social instincts, good citizenship, character in these qualities the heart holds sway. And happiness comes to him who has been soundly taught in the things that bring excellence in the hand, the head, and the heart.

It is the opinion of many great public leaders, at the head of whom is Calvin Coolidge, President of the United States, that the work of the National Committee on Boys' and Girls' Clubs is one of the most vital and necessary movements of the times.

## Trust Company Booklet

A booklet presenting in the form of dramatic dialogue the work of the trust company in handling the estate of an average well-to-do citizen has been issued by the Trust Company Division of the American Bankers Association under the title "Squaring Promise with Performance: An Act from Life." The book contains the text of a playlet presented before the Division's meeting at the American Bankers Association convention held in Atlantic City, last September. The text shows how many perplexing business and financial matters are handled in behalf of the widow unused to such transactions. Copies can be obtained from Leroy A. Mershon, Secretary Trust Company Division, American Bankers Association, 110 East Forty-second Street, New York City.

Since the playlet was presented at Atlantic City, it has been performed in several cities of this country. It gives the audience a concrete conception of the services that a trust may render.

## The Shrinkage

(Continued from page 415)

During the past year or so, the banks have been troubled to find a profitable outlet for their funds. The resources of the banks have never been greater and their lending power, arising out of gold importations, has been greatly increased. They have sought to loan this money to the outstanding mercantile and industrial firms at rates that have been, in many cases, just as favorable or lower than those which might be obtained in the open market. The paper broker obtains a commission of  $\frac{1}{4}$  per cent for handling the notes, which makes the cost of money slightly higher to the borrower. On the other hand, the bank requires the maintenance of a balance by those concerns to which it extends a line of credit. In the largest cities, the cost of the credit is about the same—whether obtained through the commercial paper market or by direct bank loans. The eagerness of the banks to lend their funds at low rates undoubtedly has been a factor in reducing the amount of commercial paper borrowings.

In view of the shrinkage in notes outstanding, it is surprising that the number of active borrowers should have increased. The explanation of this is that, as the various big borrowers have withdrawn from the open market, the note brokers have endeavored to replace them with new names. There are several features about the open market that appeal to the larger concerns. It affords the widest distribution to their notes and generally enables them to save on their interest charges. The sale of their notes advertises the company and indirectly makes its products known to the bankers in all sections of the country. The reputation thus acquired makes it easier to arrange for permanent financing, as a great many banks have gained a rather intimate knowledge of the company's financial condition.

As the note brokers' profits come from small commissions, they must seek to keep the volume large. So when the big concerns dropped out, they bestirred themselves to replace them. The brokers do not encourage the smaller firms, regardless of the soundness of their financial condition, to go into the open market. As a rule, they say that unless the company intends to borrow a half-million dollars a year and has at least \$250,000 invested in the business it ought not to offer its notes for sale, although there is a record of a firm with \$35,000 capital having sold its paper in the open market. The bulk of the borrowers in the open market have from \$500,000 to \$2,500,000 invested, and the average firm borrows about \$850,000 annually.

A division of the names according to invested capital, recently made by the National Credit Office, shows how the ranks are made up:

	Per Cent
Below \$250,000	4.5
\$250,000 to \$500,000	18.9
500,000 to 1,000,000	25.4
1,000,000 to 2,500,000	26.7
2,500,000 to 5,000,000	11.4
5,000,000 to 25,000,000	10.5
Above \$25,000,000	2.6

The packers and the steel companies are among the largest borrowers in the open market. Armour & Company and the General Motors Acceptance Corporation are



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reputed to be the largest individual borrowers.

### How a Panic Helped

THE panic of 1907 played havoc with most investments but the financial tempest proved a boon to commercial paper. So successfully did the notes of the representative borrowers weather the storm that commercial paper won a high reputation as a real secondary reserve for banks. From that time on, the open market made strides, the high point being reached in 1920 when the total sales soared to \$2,800,000,000.

Figures showing the amount of commercial paper outstanding are compiled by the Federal Reserve Bank of New York, which receives reports from twenty-six dealers. They sell about 90 per cent of the paper on the open market. The amount of paper outstanding during the past two years follows:

Month	1924	1925
January	\$817,880,158	\$819,868,398
February	866,550,913	819,745,718
March	889,052,912	812,689,861
April	870,955,915	801,261,650
May	851,551,439	775,517,268
June	863,683,629	759,091,442
July	879,060,317	727,199,450
August	910,530,410	721,816,812
September	914,686,878	708,374,000
October	925,379,469	.....
November	888,255,951	.....
December	797,605,056	.....

The paper outstanding has not been so small since January, 1922, when the total was \$704,567,018.

### Yield Higher Than Bonds

NATURALLY, the brokers have viewed with concern the tendency of banks to invest their surplus funds in bonds, rather than in commercial paper. It has generally been accepted that the net return through a period of years on paper has been about  $\frac{1}{4}$  of 1 per cent less than on bonds. Recently, however, the National Credit Office, the agency which makes a close check on

## WARNING to Motorists

### Don't Start Your Engine UNLESS Garage Windows or Doors Are Open

All gasoline engines when operating, generate CARBON MONOXIDE GAS. This gas is an insidious and fatal poison. It is invisible, odorless, tasteless, and non-irritant. A small quantity breathed into the lungs means almost immediate death.

*This danger can be averted only by fresh air—fresh air through open doors and open windows.*

Be warned yourself and warn others against this danger from CARBON MONOXIDE GAS.

*John Hancock*  
LIFE INSURANCE COMPANY  
OF BOSTON, MASSACHUSETTS

all commercial paper offerings, declared that the average interest rate on paper, during the past twenty-five years, had been one-quarter of one per cent higher than the average return on high-grade bonds. Taking the average high and low rates kept weekly since 1900 by a well known statistical agency, it computed the average yield at 4.89 per cent. Taking the yields on 60 high grade bonds, made up of four blocks of fifteen prime industrials, railroad, public utility and municipal bonds, the average return was fixed at 4.63 per cent.

These figures upset the popular notion as to the respective yields on these two classes of investments, but many banks were led to put their surplus funds in bonds to get the benefit of the rise in values. While bankers

# The Checking Account—the Check

Every month 20,000,000 people are shown the great value of checking service. They are told about a new type bank check that is helping banks secure new business.

OVER 10,000 American banks have found two ways to help solve the unprofitable checking account. First they are benefiting in their localities from the effect of a tremendous national advertising campaign. New depositors are being created. Old accounts are increasing in size and becoming several times more valuable.

Second, they are turning the check from an expense into a business-building tool by a new type check, called Super-Safety.

The tremendous value of Super-Safety bank checks protected against fraudulent alteration is pointed out in Bankers Supply Company advertising. To know how valuable a business-getting tool this proves to be, simply read the letters from banks who have featured this extra point of service. For instance, one bank opened 12,000 new accounts in 15 days. Others have received results equally amazing.

So that banks may get the maximum benefit from this tremendous program actual advertisements have been prepared which banks may now use in their own local papers. They are the work of some of the best known advertising brains in America. With them come various tested plans which have helped others build business.

Let us send you information showing what they will accomplish for your bank. You will want to file this data for permanent reference. Write now.



This eagle design identifies Super-Safety Checks—*safest supplied by any bank*. Look for it.

BANKERS SUPPLY CO., Division  
THE TODD COMPANY  
5950 So. State St.

Business-Building Merchandise for Banks  
New York Rochester CHICAGO Denver Dallas  
Super-Safety Bank Checks protect depositors against check fraud. They are made of the safest check paper supplied by any bank.

readily admit that the market price of bonds goes off as money tightens up, most of the banks figure that they will dispose of them before there is much depreciation.

Commercial paper is, of course, not affected by the ups and downs of the market, but is paid off with a sort of clock-like precision. While there have been failures of firms offering their notes in the open market, the losses have been exceedingly low, just 47 cents on each \$1,000 during the past three years, and the brokers insist that no bank in the United States has ever become insolvent through default on commercial paper.

While there is no mystery as to why the volume of commercial paper has shrunken, it is the opinion of the paper brokers that there will not be a much further decline.

## Work of American

(Continued from page 412)

whole program of banking and monetary reform will depend upon the ability and integrity of the man appointed to the responsible position of Superintendent of Banking. It augurs well for the future that one of the most capable economists and lawyers of Chile, a former finance minister, has recently been appointed to this position.

### Other Reforms Adopted

THE amendments to the negotiable instruments law of Chile, recommended by the Commission, was passed two days after the final enactment of the new monetary law, and within the last few weeks the government has enacted the Commission's new organic budget law, which will give Chile a modern budget system. It has also enacted the law recommended by the Commission providing for a complete reorganization of the administration of the National State Railways. This new railway administration law places the management of the railways largely in the hands of a board of experts, and it is hoped will to a very substantial degree remove politics from the railway administration.

The limitation of this article will prevent a description of the many other projects of law recommended by the Commission, all of which are now being studied by the Chilean Government with good prospects of enactment in the near future. They include a bill establishing a new bureau of fiscal control and audit, involving a complete reorganization of the nation's accounting system under the directorship of a comptroller general immediately under the presi-

dent of the Republic. There is also a bill reorganizing the customs administration, through which Chile receives the great bulk of her national revenue, and an American customs expert has been appointed to advise the government for a year in connection with this reorganization. There are also five new tax bills, including an income tax bill, a general property tax bill, and a stamp and stamped paper tax bill.

The later part of September as the period of the American Commission's services was about to expire political disagreements led to the resignation of President Alessandre and the creation of a new government with Mr. Barros Borgoño, the head of Chile's great mortgage bank and the Opposition's candidate for the presidency at the previous election, as vice-president, and acting president. This change in government did not in any way interfere with the carrying through of the reforms recommended by the American Financial Commission as the new vice-president and his cabinet were all supporters of the Commission's program.

In November there was a presidential election and with the exception of one party, all important political parties had agreed on the candidacy of Emilio Figueroa, a man of the highest integrity and patriotism, as president. He was elected with a large majority and will assume the office of presidency early next year. According to newspaper reports recently received, President-elect Figueroa has publicly declared that the policy of his administration will be to carry through effectively the program of the Kemmerer Mission, so that the prospects are good that Chile will be firmly established on a modern scientific currency, banking and fiscal system during the administration of its new president.

## Bank Business-Building

(Continued from page 419)

the smaller variety, notwithstanding that the strength of the average bank is in having a large number of average sized accounts instead of a few large ones. Of course, there are a few exceptions to this, but generally speaking the country over, a bank is in a better position financially if its deposits are principally made up of many accounts of average size.

One reason for this is that the average account is not usually large enough for permanent investment individually, and besides it often represents a more or less permanent cash reserve. Because of its size it is not subject to as great a fluctuation as is the case with large accounts, many of which are temporary funds awaiting disbursement or investment.

Another point in favor of the depositor with a medium sized account, is his willingness to be satisfied with less in the way of special accommodations than the large depositor, who because of the size of his account often demands many special favors, higher interest rates than are ordinarily paid, and proportionately a much higher credit rating.

A mistake some banks make is to value accounts on the basis of the average bal-

ance regardless of the activity of the account. Nothing is more deceiving than a large checking account, especially if it is a pay-roll account, or an account in which many checks are deposited regularly. Many such accounts which at a glance appear profitable because of their size are actually carried by the bank at a loss. The clerical help necessary in handling them, the large amount of stationery used, and the portion of the balance which is actually in process of collection, more than offset any possible profit that can be made on the balance after reserve requirements have been deducted. The interest rate charged to borrowers having large balances is often regulated by the size of the deposit and the large depositor is favored, when if the truth is known, the large account may be carried at an actual loss to the bank. Only an analysis of the account will uncover the truth.

Of course, there are many small accounts that are unprofitable, but because of their size a bank is not usually deceived in this regard.

A season of stiffening money market comes on, interest rates react by increasing from one to two per cent, and what happens to many large accounts? One by one they begin to melt away through investment, always much faster proportionately than accounts of average size. In fact, the average account shows greater permanency at a time

when permanency is a big factor with the bank. For this one reason, if for no other, many accounts of moderate size are much more desirable than a few large accounts.

#### Wooing the Small Account

THE other extreme of getting large accounts is reflected in a race by banks for small savings accounts. Nothing could be more commendable in our American bankers than to do everything within their power to encourage thrift through a savings account. But in making it easy to save, a bank should above everything else make it easy for the saver to help himself, or else its work goes for naught for unless the saver appreciates the opportunity which has been given him to become independent and contributes something toward his own advancement, he cannot appreciate the importance of the step he is taking.

For this reason I do not believe it is good business for a bank to give the first deposit, or any portion of it in order to get savings accounts. It is what might be termed, "forced thrift," and "forced thrift" is not a "blue ribbon" variety of thrift. If the American people were an impoverished, bankrupt nation, with dollars as scarce as buffaloes, and no opportunity to earn the initial deposit, and everything hinged on getting one dollar with which to start a savings account, the giving of the first deposit might be partially justified. But in this land of plenty, with opportunities to earn a dollar on every hand, it seems to me that the better course is to help the people to help themselves, first by making saving money in a bank account attractive, interest being but one of several inducements, and then to so portray the benefits to be derived that people will desire to save to the extent that they will earn the small initial deposit required to open a savings account, and having earned it, it is only natural that they will appreciate its worth, which is not the case where the first deposit represents a gift to them.

What has been said about reducing the business-building program during quiet times applies equally to reducing the quality and quantity of service to customers. It usually takes years for a bank to build up a wide reputation for efficient service. That reputation can be completely lost, if the quality of its service is materially reduced, even for a short time.

People are quick to sense a breakdown in a bank's service. If accustomed to prompt attention at their teller's window and they are now required to wait in line because the teller's assistant has been discontinued in the interest of economy, they are quick to complain of the inferior service, and before long the bank will find that its reputation for efficient service has been dissipated.

A good reputation is years in the making, and is well worth safeguarding. Watch the quality of your service and keep it efficient in tight times as well as during prosperous days. A little extra effort on the part of every member of a bank's staff will insure a high standard of service, even though reductions are absolutely necessary.

—  
Read the warnings in the Protective Section of the JOURNAL. They may prevent losses to the bank.

## The Sterling Mark of Banking

is the Shawmut Indian—expressing cordial and helpful relations between customer and bank. What the Shawmut Indian is doing for others he can do for you. Why not put him to the test?

THE NATIONAL  
**SHAWMUT BANK**  
40 WATER STREET BOSTON, MASS.



## FOR THE COMING YEAR

WE wish to each of you prosperity and success, and we hope that during that year we shall be able to serve you.

**THE MARINE TRUST COMPANY  
of BUFFALO**

**Resources Over One Hundred Sixty Millions of Dollars**

A COMMON instruction in business transactions with Porto Rico—

**"Please Present Documents Through Banco de Ponce."**

Our main efforts being directed to the promoting of trade relationship between the continental United States and this Island, we have specialized our collecting services to further our purpose.

**BANCO DE PONCE**  
PONCE, PORTO RICO

**Capital . . . \$750,000.00      Surplus . . . \$175,000.00**  
**Assets . . . . \$5,000,000.00**

WE SOLICIT YOUR COLLECTIONS

CORRESPONDENCE INVITED

## 100% Check Protection

In one operation the SAFE-GUARD CHECK WRITER automatically and mechanically protects the payee name and amount line. No special paper needed. You get greater protection and save money when you use the SAFE-GUARD.

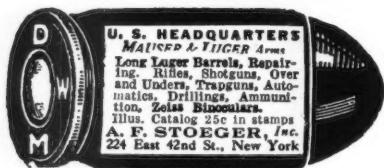
**The Safe-Guard Check Writer Co.**  
3-5 Beekman Street

NEW YORK CITY

## RARE COIN BOOK 50c.

All U. S. Rare Coins Illustrated

**GUTTAG BROS.,** 16-18 Exchange Place,  
New York



### Playing With Money

(Continued from page 426)

And how can we expect to rescue innocent people from the clutches of sharks and crooks unless we give them constructive assistance and make it known that we welcome the opportunity?

#### Higher Rate Competition

THERE is one thing that the savings bank may as well face squarely, and that is that the lure of higher rates of in-

terest has taken a firm hold upon many people and that competition is keen not only from fake speculations but from many agencies of doubtful merit operating within the law; and also from many perfectly legitimate and safe investments paying rates of interest that the bank cannot meet.

To illustrate this fact, I am quoting from a letter that has just come to my desk: "I am a single man about twenty-eight, with no one depending on me. But I hate to be getting 4 per cent when you can easily get 7 per cent without plunging or gambling on a rising market. Of course, I'm only a country hick and don't know much about finance, but have a little horse sense, so I am always willing to take advice from people who are schooled in the above line."

It's a common remark: "I have some money in the savings bank and would like to invest it where I can get a larger return—7 or 8 per cent." That's an easy one, of course. A remark like that gives a chance to go into the principles of investment and to plant seed that often is permanently effective.

#### The Lack of a Plan

THE one thing that is apparent in the cases that come to my attention is the almost universal lack of a plan or program in the management of money and a lack of sense of permanent values in its use.

But the dryest desert has its oasis, I guess, and here is the story of a man who has used rare intelligence in the investment of his money, and I quote his experience to brighten up the picture:

He is now seventy years old, retired, for

twenty-eight years an elevator man in a large New York firm. Twenty-eight years ago, his salary was \$65 a month. When he retired a few months ago, his salary was \$210. His list of securities and money savings are given below, the income from which is about \$1,700 a year:

\$1,000	Armour & Co. R. E. 1st mtge. 4 1/4% 1939
1,000	New York Tel. 1st mtge. 4 1/4% 1939
1,500	Southern Bell Tel. & Tel. 1st S. F. Ss 1941
500	Chicago, Mil. & St. Paul conv. 4 1/4% 1932
1,000	Union Pac. 1st mtge. R. R. & I. G. 4s 1947
2,000	Dominion of Canada Ss 1931
5 shares	American Tel. & Tel.
22 shares	N. Y. Central R. R. Co.
10 shares	Union Pacific pfd.
10 shares	Pennsylvania R. R.
15 shares	Atchison, Topeka & Santa Fe pfd.
6 shares	Texas Company
15 shares	Baltimore & Ohio R. R. pfd.
\$500	Republic of France s.f. 1945
1,000	Republic of France s.f. 7 1/2% 1941
1,000	U. S. Steel Corporation s.f. Ss 1963
2,000	Interborough Rapid Transit con. 7s 1932
2,000	Republic Iron & Steel s.f. Ss 1940
20 shares	Standard Oil of N. J. pfd.
\$1,000	Dutch East Indies ext. 6s 1947
10 shares	Eastman Kodak common and extras
\$500	Northern Pac. Ry. ref. & imp. "B" 6s 2047
2 shares	N. Y. Telephone Co. pfd.
10 shares	Standard Oil Company of N. Y.
\$400	U. S. of America Treas. Savings Ctf.
16 shares	Consolidated Gas of N. Y. pfd.
\$4,000	on deposit in the Bowery Savings Bank

But even this man, with all his care in managing his money, was made to look like a mere infant as a financier when a depositor came in the other day who had \$7 in the bank. Five dollars were bearing interest at the time and two dollars were not. He said that he did not want any of his money lying idle, withdrew the \$2, and took it some place else.

**S**ERIOUS as this question of fake investments is, and important as it is that banks should give helpful assistance, I do not think that this is the biggest question that banks face in helping their constituents in a practical way. The amount of money wasted in the general use of personal incomes is many times as large as the amount lost in fake stocks. And what we need to do is to serve as financial doctors in prescribing for all the financial ills of plain people; help them to think through a life plan for the management of their money affairs; burn into their lives a few basic principles regarding their day-to-day economic matters, and demonstrate ourselves as competent advisers on all personal problems of a financial character.

This whole matter of giving people assistance in the management of their personal affairs, if done at all, should be accepted as part of the policy of the bank. It should be advertised as a means of bringing people to the bank. It should be free and unbiased.

On the other hand, those who seek such assistance should recognize that the service is wholly in their interest and should be expected not to express themselves in riddles but freely to give the full facts of their financial condition. Personally, I will not presume to help anyone in the development of better financial plans and habits unless he is willing to lay bare the facts about himself. He must put himself in the position of a cooperative patient and make the doctor familiar with his troubles.

Read the January JOURNAL for the report of the Mid-Continent Fiduciary Conference held in St. Louis, Dec. 11 and 12.

